NATIONAL BUSINESS REVIEW

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Chile trade ban bites but some exporters foil FOL

by Warren Berryman

THE Federation of Labour's ban on trade with Chile is costing New Zealand an estimated $100 million in lost export opportunities.

New Zealand is the last country enforcing the trade ban imposed by the ILO and International Confederation of Free Trade Unions after the Pinochet overthrow of Allende's communist Government.

Chile is enjoying an economic resurgence and New Zealand exporters are breaking the FOL ban by transhipping goods through third countries to Chile.

Several New Zealand companies already have agents in Chile. Others are researching this expanding market.

The FOL ban imposed in 1974 after the Pinochet regime jailed or murdered Chilean unionists brought New Zealand exports to Chile from $18 million a year to virtually nil.

New Zealand statistics show an increase in exports to Chile from $33,788 for the 1976-77 year to $289,851 for the first nine months of the 1977-78 year.

New Zealand's unofficial exports to Chile would probably double the official figure.

Off the record discussions with manufacturers last week revealed hundreds of thousands of dollars worth of exports going to Chile via transhipment. These exports are waybilled out of New Zealand to Panama, Japan, Europe, or the American west coast, then with a new waybill affixed, sent on to Chile.

Transhipping doubles the freight cost. And exporters — in particular the Export Institute and Export Year Committee — have been putting pressure on the Government and the FOL to have the ban lifted to allow direct New Zealand-Chile shipping.

AUGUSTO PINOCHET . . . overthrew Allende.

Trade sources, many of which have been in Chile or have agents there, estimate that market to be worth from $60-$100 million a year for New Zealand goods.

Joao Cruz, the Chilean Commercial Attache in Wellington, said the Dairy Board could supply a Government-funded scheme to give milk worth $30 million to schoolchildren. This was just a start, he said.

The pressure on the FOL to drop the ban will undoubtedly intensify this week following an Export Institute seminar given by Michael Fitzgerald, New Zealand's returning marketing officer in Santiago.

Exporters claim the ban is cutting off our nose to spite our face. Communist China had one of the biggest pavilions at November's trade fair in Santiago; Chile buys more than $US½ billion worth of goods a year from the United States, and has $47 million worth of two-way trade with staunchly unionist Britain; buys about $¼ billion worth from Germany, and $57 million from the communist bloc.

Australia lifted the ban last April, and has sold an estimated $20 million worth of goods to Chile in the last six months.

Under the guidance of Milton Freidman's "Chicago Boys", Chile has cut inflation in half each year since the overthrow of Allende, when inflation was running at 1000 per cent. It now runs at 24 per cent.

Chile's balance of payments improved from a $US30 million deficit in 1977 to a $US305 million surplus in 1978.

Chile can afford to buy. And there is a ready market for meat, dairy products, and manufactures, especially sophisticated farm equipment.

As part of Chile's Freidmanite free trade policy, tariff barriers have been cut to a low 10-15 per cent and could go lower. Access to the market is no problem as it is for New Zealand products in most of the world.

But freight is a problem. One can air freight to Chile through Air New Zealand and Lan Chile with relatively little difficulty, but heavy goods can be sent only by ship. And despite the fact that they are facing redundancies through lack of trade, the maritime unions refuse to handle Chile cargo.

The ban has not affected New Zealand imports from Chile. Chile doubled its exports to New Zealand during the 1977-78 year.

FOL secretary Jim Knox took over the dealings with the ILO and ICFTU from Sir Tom Skinner at the outset of the Chile coup d'etat, when Skinner gave up his overseas positions.

Knox has retained a staunch anti-Chile stance, despite pleas from the Export Institute. Knox was offered a no strings attached, fully paid trip to Chile by the Chilean Government. A Chilean Embassy spokesman said they wanted Knox to go and see for himself, but Knox turned the offer down.

Skinner last week rejected the claim that New Zealand was the only country enforcing the ban. He also rejected as "propaganda" the Chileans' claim to have modified their policies.

In fact, he said, the situation in Chile has deteriorated in recent weeks. The free union elections were a farce, unionists had been jailed, there was no free trade union movement in Chile, he said. The ILO and ICFTU had called for an intensification of the ban. And the FOL would give effect to the ICFTU resolutions, he said.

Skinner said it was impossible to impose the ban completely, but New Zealand, being a small country with a united trade union movement, could do this better than most countries.

Asked why we should single out Chile for a ban when we traded with other dictatorships, Skinner said that no other country had all its unionists living outside the country or in jail.

Why should we refrain from trading with Chile when China dealt with them? Skinner said he did not care what communist China did.

Skinner is also chairman of the NZ Shipping Corporation. He said he was not aware of Shipping Corporation ships being used to break the ban . . . but NBR understands these ships have been used in a link in transhipment to break the ban.

SIR TOM SKINNER, JIM KNOX . . . against Chile trade.

Inside

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Anyone care for a (secretly-decided) future?

by Colin James

IN Wellington, a debate of potentially momentous importance to the future of the country is going on. A lot of bold people are suggesting, from the safety of their carpeted offices, radical changes to the economy.

In certain circles it has become respectable to conjure up for New Zealand a brave new world in which controls and licences have no part.

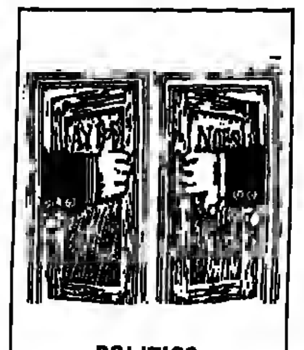
The mutterings of last year, stifled somewhat by election-year caution, have given way to a flood of reports and pronouncements: Bank of New Zealand economist and former prime ministerial think-tanker Len Bayliss in speeches, the Treasury and the Reserve Bank in papers to the Prime Minister, the OECD, a string of economists' papers at the science congress in Auckland and the Planning Council.

All have been in remarkable agreement about the need to make the economy more internationally competitive — through reduction at least and elimination at most of controls and protective walls. Some, the Treasury being a notable exception, have argued for devaluation as well.

It is possible this growing pressure, for political reasons as much as for economic, may lead to radical changes in the country's economic management — phased, but radical none the less.

If carried out on anything like the scale of the OECD and Planning Council reports, they could have consequences comparable with those introduced in the late 1930s, changing the economic structure and through that the shape of economic activity and economic, political and social attitudes.

If one fantasises a little, one can conjure up the possibility of the cosseted, fat and frightened society the 1930s measures helped to create being replaced by a lean, inventive and energetic society enjoying the battle for survival.



POLITICS

That is probably fantasy, but the point is made. The argument that is going on at the highest level is not about a bit of fine-tuning here or there. It is of fundamental importance to all New Zealanders.

And the signs are that it will be decided by a small group of people behind closed doors — just as in the 1930s.

Deputy Finance minister Hugh Templeton — who, Wellington folklore has it, has not even seen some of the Treasury papers — has said on radio that the Prime Minister is thinking of a package to be announced at Budget time.

That suggests that the decision will be taken by a few influential ministers, on the basis of secret departmental reports, modified, perhaps, in the light of their seat-of-the-pants feel for the political limits to action after, perhaps, secret discussion with a select circle of pressure group representatives.

Thanks to Bayliss, the OECD, the Planning Council and one or two other economists, there is a visible level to the debate. But it is at the invisible level, among maybe half a dozen people in each of the key departments and among their best politicians and the Cabinet politicians, that the debate that counts has been taking place.

They will make the decision. You and I will have to live with the effects, which in the case of wholesale decontrol are probably unknowable at this point. Apart from some scraps the newspapers are assembling and others that are finding their way through the Wellington grapevine to key people in the key pressure groups, we are not being given any indication of what is proposed.

LEN BAYLISS . . . contributing to debate

HUGH TEMPLETON . . . Budget package from PM.

Not so, the apologists might protest. There is the Planning Council. Word has been passed round that, except for devaluation, the Treasury and the Reserve Bank did not substantially disagree with the broad tenor of the Planning Council's "strategy" report.

Is that not sufficient on which to base a judgment?

Well, no. The Planning Council's report is a framework for decisions, not a set of proposals. It is hard, for example, to get worked up about the qualified and requalified statement on import licensing.

It gives no help with the questions: Am I going to have to go to the wall as an inefficient user of resources? Am I going to have to be retrained and relocated? and so on.

The way things seem to be going, the manufacturer in his plant on the industrial estate, the farmer in the backblocks, the worker on the floor will not know what is being proposed until it is announced, whatever the favoured few of his kind in Wellington know. Yet the effects could be far-reaching.

In any case, for all the close and constant contact the Planning Council claims with the Treasury and the ministry, it is by no means certain it knows the secrets. Ah, the apologist might counter, it is not necessary that the Planning Council know the details in order to promote discussion on broad directions. The Planning Council is not there to influence the politicians, though in this case it forms a useful legitimising device for the current mainstream departmental thinking. It is there to influence the public.

Not so, says council chairman Frank Holmes; or rather, a qualified not so. The council does talk to as many groups as it can, to spread discussion about economic (and other) options. But, he says changes in popular attitudes to economic change will have to follow the change in policies, rather than precede it.

But must they? What about "open government"? What about "taking the people into one's confidence", "telling it like it is (will be)"?

Is it not possible for the Treasury to offer to one (or both) of the State-run television channels a simplified version of the "this is our life to come" audio-visual presentation I understand was shown to ministers before Christmas outlining our options?

Is it not possible to feed to the interested public — as chief investigating officer Paul Carpinter commendably did at the ANZAAS congress — the fruits of the research which has led to the papers now before the Prime Minister?

Instead of a fait accompli the public is left to deal with as best it can, why not a dialogue before the event; a discussion of the options as seen by the departments and their proposals?

Well, now, the apologist has got me. I am being naive.

For one, the New Zealand constitution requires a public service that serves its minister. It is faceless. It must preserve the pretence that all it does is in fact done by the minister.

For another, discussion of specific proposals, properly the subject of the Budget, could disturb the peace or disrupt our national interest, especially if devaluation is involved.

For a third, if word got out of some of the things we are proposing, the pressure groups might frighten the politicians off, to the detriment of the ultimate national interest.

The short answer is that while the Prime Minister is undoubtedly the final arbiter, the parameters of his decision are set by the departments. If the departments were not now talking about a more competitive economy, the Prime Minister would not be having to make a decision on it.

Anyone who doubts that this is the case (with exceptions from time to time, yes, but not in this instance) needs only to talk to someone who has been at the centre of departmental policy formation in the past.

As for national interest, in a matter of the importance of the changes we are told are being considered, there is surely a case to be made for the notion — the public — deciding what is the national interest, since it did not get a chance to vote on the idea of a freer economy in the election.

Even the usual caveat about devaluation does not necessarily apply, since we are given to understand a formal devaluation is not favoured by the Treasury.

If important changes to the structure of the economy are to be introduced, the Government is going to need, as Sir Tom Skinner has pointed out in the case of the unions, co-operation from the public and the pressure groups for its political survival — and that means more than the ministers' chosen few.

New Zealand is small. That should encourage participatory democracy. But it also enables a high degree of centralised control. Perhaps if the economy is to be freed, something should also be done about the political process.

There is time yet between now and the Budget. Even if nothing is eventually done, the public, who will have to carry the can for inaction just as much as for action, should be involved in the decision.

Why Britain balked at NZ's proposals for air fare deal

POLITICS — and British Government politics, at that — are holding up agreement on a new air fares agreement between the United Kingdom and New Zealand.

Talks between the two Governments and their respective airlines on a new fares agreement got nowhere in Wellington at the end of last month, and local sources now say the patience of New Zealand officials is wearing thin.

Popular speculation has been that a super cheap United Kingdom fare of somewhere around $900 for a return trip was in the offing, compared with the cheapest return excursion fare at the moment of $1200.

But details of routes, stopovers (if any), fares, seasons and what other airlines are to be involved have not been settled.

The political problem for the British Government stems from its experience with the Australian cheap fares agreement and the violent attacks on Australia by Asian countries, particularly Singapore.

Singapore, among the ASEAN countries, has the most to lose from stopover traffic in Singapore and the exclusion of its airline, SIA, from the Sydney-London route.

So far, the attacks by the ASEAN countries have been directed at Australia, rather than the United Kingdom, but negotiations aimed at settling fares including a Singapore stopover and the fares to be charged by SIA to London have got nowhere.

What apparently happened in the UK-NZ negotiations was

TOURISM

that the British side could not agree to any of the New Zealand proposals.

Unlike the Australian cheap fares agreement which limits the carriage of traffic to Qantas and British Airways, any deal for New Zealand must involve stopovers simply because Air New Zealand does not fly all the way to London.

In effect, that means we have to get into bed with another airline at Los Angeles, Singapore or Hong Kong and arrange for that airline (or airlines) to take New Zealand traffic on to London and back to that point on the return journey. That's basically the arrangement we have now with British Airways through Los Angeles.

It is also the reason given for raising the one-way budget fare to Los Angeles, so that it will not be worth a traveller's while combining the budget fare with Laker from Los Angeles.

It is hoped that making it the same, or cheaper, to fly to London on regular services, we will save overseas exchange, generate more traffic for the Pacific route and give officials something more to tempt British Airways with in negotiations. It will also do Laker in the eye, further discrediting his cheap travel promises.

But to ask British Airways to pick up New Zealand traffic in Singapore for carriage to London would invite Singapore to ask.

• What about its airline — why can't SIA get a share?

• And if the New Zealand Government is prepared to allow stopovers on its London service, why can't the British and Australian?

The finger would then be pointed at the British, who are not feeling comfortable about the prospect, and according to sources at the talks with the New Zealand side, they suggested New Zealand should tell Singapore there would be no stopover in the recognised sense and that its airline would not get a share of traffic.

New Zealand apparently replied that the British should do their own dirty work, and that if the British didn't like the bed they made with Australia, it should be remade by those parties, not by the Kiwis.

A similar but less intense stopover problem applies to Hong Kong and there is the long-standing question of participation by Cathy Pacific in the London traffic.

New Zealand has given the British "some time to clean up their mess", but that time is running out and New Zealand is going to want something definite settled soon.

An announcement may be made this week.

Meanwhile, Qantas and British Airways have been having a field day in London, Australia and Europe, selling New Zealanders tickets which under the old arrangements they would have bought on Air New Zealand flights.

Continental misses Pago connection

CONTINENTAL AIRLINES' plans to use the Pago Pago connection to start a new cheap fare route across the Pacific have run into opposition from New Zealand aviation authorities.

The Ministry of Transport has a couple of moves up its sleeve which are designed to stop exploitation of fares through the cabotage area.

Continental wants a one-way $75 fare from Pago Pago to Auckland to attract the cheap-fare traveller as part of its island-hopping strategy of developing tourist routes.

But the Ministry of Transport has made it clear there will be only two fares approved between New Zealand and Pago Pago — a first class fare and an economy fare.

At the present return economy fare of $417, Air New Zealand manages a load factor of only 26 per cent. This is interpreted as saying more about the quality of Pago Pago as a destination than any disincentive created by the airfare.

The ministry's controller of aviation policy, Frazer Norton, says there is no justification for a carrier offering a cheap fare on these load factors.

But political complications with the Government of Western Samoa must also loom large in the mind of ministry officials.

Polynesian Airlines is now running two flights a week into Apia using a chartered Air New Zealand Boeing 737. Air New Zealand also runs two flights a week into Apia. Cheap fares into neighbouring Pago Pago would disturb this traffic, and would put Polynesian Airlines into an even more precarious financial position.

That would lead in turn to more political rumblings in the South Pacific from Western Samoa's Prime Minister Tupola Efi, an already vociferous critic of New Zealand economic policy.

Shipping stoppage filip for Nationwide

THE marine engineers' dispute that paralysed Cook Strait shipping brought a welcome fillip to transport entrepreneur Matt Thompson and his Haulaways Group.

Thompson, now the managing director of the newly formed Nationwide Transport International Ltd, was flying his two Carvairs fully loaded with cars on eight flights a day across the strait.

He said he had transported more strike-stranded cars than had the widely publicised Air Force-Safe Air ferry service.

He said was charging an average of $65 a car, against $45 a car charged by the Government services. He figured that because his planes were especially designed for the task, and burned less fuel than the Air Force Hercules, the Government operation ran at a loss and was subsidised by the taxpayer.

Nationwide took on another transport monopoly that week — Air New Zealand. Nationwide flew its inaugural cargo flight from Christchurch to Auckland, charging 10 per cent less than Air New Zealand.

The plane, Thompson said, was full to capacity both ways.

First Class Sleeperette® service.

Clipper® Class, the separate section with an empty seat beside you whenever possible.

EDITORIAL

POLICY-MAKING in the energy field ominously appeared to be a shambles last week, when Prime Minister Muldoon announced a 60 per cent boost in the price of bulk power then declined to answer the multitude of questions that demanded asking, referring questioning journalists to Energy Minister Bill Birch.

Just a few days earlier, the Government had reiterated its plan to peg the increased retail price of electricity to 5.5 per cent.

Muldoon himself had sent telegrams to most of the country's electricity supply authorities, telling them by how much they could raise their charges (the Auckland Electric Power Board had its proposed average increase of 7 per cent reduced to 6.7 per cent).

This was in line with the Government's advice to authorities late last year that the bulk national tariff was to be increased by 5 per cent from April 1 and they could adjust their own accordingly, up to a maximum 7 per cent in any individual case. But Muldoon stipulated that the national average increase was not to exceed 5.5 per cent.

The national average did exceed the 5.5 per cent guideline, the authorities were obliged to look again at their tariffs — and then came the latest Muldoon bombshell.

His change of mind within a week brings into question the quality of advice the Government is being given, and in turn makes suspect the way in which the Government's total energy pricing policy is being formulated.

Examples of confused thinking within Government aren't hard to find.

According to the Prime Minister last year, Maui would have a significant impact on the revitalising of New Zealand's economy.

But in recent weeks, we have learned that only test quantities of gas will be used in the early years of the take-or-pay arrangement.

That leaves the $500 million investment offering New Zealand scant hope of worthwhile quantities of condensate and a questionable return for the partners involved in the venture.

Measures announced in last year's Budget were designed to encourage solar energy use. But sales of domestic solar water heaters have slumped since the Budget's announcement that homeowners installing solar heaters would qualify for interest-free Government loans. Rather than encourage consumers to conserve energy by going solar, the scheme has virtually killed all sales, while consumers wait in vain for the Ministry of Energy and the Electrical Supply Authorities to make up their minds about the scheme's implementation.

So what about the economic wisdom of the latest decision? Given the apparent haste in which the new policy was formed, we have cause to worry.

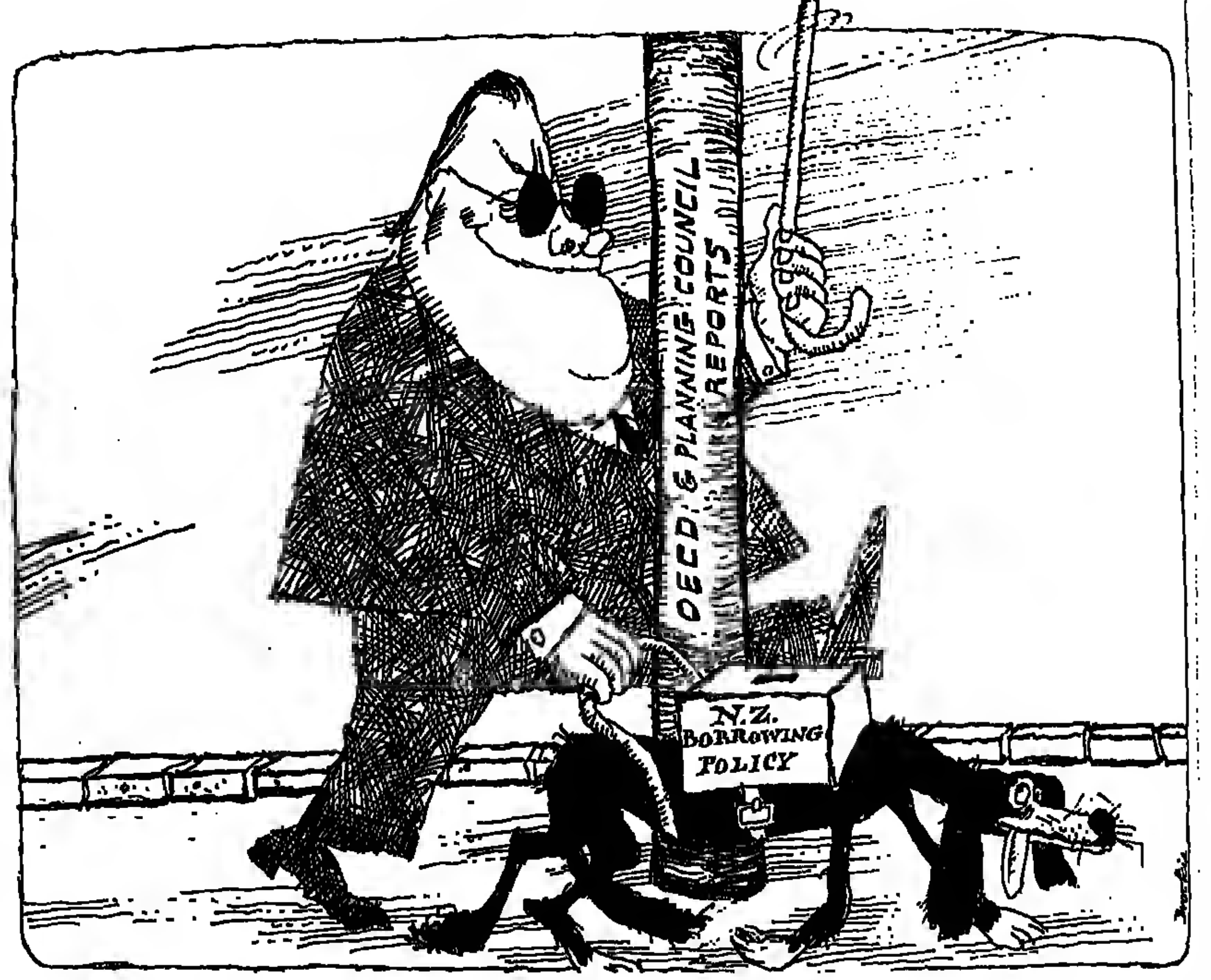
The Manufacturers' Federation quite rightly expressed fears that the Government had considerably under-estimated the cost flow-on effects, which would make it more difficult for exporting manufacturers to compete in overseas markets.

Similarly, we may wonder if the Government evaluated the effects on wage claims from the unions, for example. Or on the prices of our vital primary exports, after they have been inflated by increased farm costs?

The layman can only wonder about policies which link indigenous fuel prices with those of oil imports, then discourage use of a home-grown product with which we are glutted. He may wonder, too, why he must pay for hydro development projects conceived and relentlessly pursued by bureaucrats, regardless of public interest, and irrespective of environmental or socio-economic objections.

We had reached a stage — according to Goals and Guidelines — where public participation is needed to help steer Government policy-making on the most appropriate course. That was a year ago. The continued assumption that energy thinking should be confined to bureaucrats is both absurd and democratically irresponsible. And the Muldoon administration should have learned at the last election the high political price of becoming remote from the electorate.

Bob Edlin



QUOTE of the week must go to the Asia Pacific Forum, Vol 4, No 6, which describes the Prime Minister as "pugilistic". After years of porcine comparisons, a change of species for our punchy leader.

•

IT's good to be allowed to savour the incisive commercial thinking of an overseas meat mogul, and so all hail to the Evening Post last Thursday for giving readers a chance to admire some gems from Dr Bill Bullen, chairman of the Borthwicks international meat processing and trading group.

Dr Bullen opposes the idea that the freezing industry should be delicensed... "We may end up with a situation of complete disruption if authority is given to people to build works without control, a sort of industrial anarchy. I don't think that we should risk this sort of thing. It's playing with fire."

But he is "all for competition, and competition is a very good thing. If there is an area where there is not competition, we should establish competitive buying, but that's a different thing..."

Oh, then there's profitability. Dr Bullen is all for more of it, of course, and complained that "profit margins in the industry are too low..."

Just to do his little bit to help the company he told us how grim things were on the British lamb market — a message which he reiterated for the benefit of rural listeners to the National Programme's farm session.

No doubt coincidentally, Borthwicks' officials here for some months have considered the lamb schedule in New Zealand is too high. But we can only wonder if the good doctor's grim remarks weren't an attempt to talk the schedule down a few notches.

•

WE hear that Energy Minister Birch found a recent NBR — well, enlightening.

Being first in with the news didn't win NBR kudos with the Energy Ministry, when we published a story on the dire straits of the solar water heating industry.

It seems that the first the new Energy Minister heard of the FOE Foundation's critical report on the solar energy industry was from the press. And it seems that a Minister scooped is a Minister scorned, for the phone line ran hot between Wellington and Auckland University, home of the Maiden Committee which had contracted the report out to the FOE Foundation.

The Energy Ministry bureaucrats, whose alleged dithering was said to be the prime cause of the solar industry's woes, are now preparing rebuttal.

Presumably the Minister will have better control of that story than he did over the last one.

•

NO prophet in his own country, New Zealand film-maker Pat McCarthy pulled off a coveted coup in the United States where parts of his anti-abortion film, "I'd Love Her Back Though," were broadcast to 44 states on the PBS system.

The New Zealand Broadcasting Corporation, after five months' deliberation, rejected McCarthy's film for local screening.

McCarthy and his cameraman partner, Michael Tubberty, financed the $12,000, 40 minute film out of their own pockets. Their company, Origin Films, has sold 37 prints for $315 each — half of these overseas.

Most of these were sold to anti-abortion groups, McCarthy said.

This film, Origin's first, has proved profitable, and the company is now working on a second "educational film for children".

McCarthy, a Catholic and SPUC member, also edits the anti-abortion publication Humanity.

Since he sold his film copies no rights reserved, McCarthy said he did not expect a royalty from the PBS screening. But he said he hoped the exposure would generate future sales in the United States.

•

THE short-term prognosis for New Zealand is gloomy — but where will we be in 10 years?

If we heed Professor Duncan, the short answer is lonely. Bank of New Zealand chief economist Len Bayliss has different ideas.

Interviewed on the radio programme "Viewpoint" the other morning, Bayliss was asked to give a personal forecast of where New Zealand would be in 10 years. It depended, he said. If we bite the bullet now and go ahead with an economic restructuring (a Bayliss-type restructuring, presumably) we will make New Zealand a good and prosperous mini-state.

If not, there will be increasing socio-economic problems — and political and economic union with Australia will become the big talking point.

•

WHATEVER happened to the new super-duper Ravensdowne Fertiliser Company after that prolonged share battle and eventual takeover of Kempthorne Prosser last year? Well, thanks to certain complex legal loose ends which needed tying up, the new company is not yet legally constituted. But it seems an order-in-council should be passed this week to overcome the difficulties and allow Ravensdowne to get down to business.

That news should bring a sigh of relief to a number of frustrated farmer shareholders who had been hoping for a slice of the action from a revitalised fertiliser company long before now.

•

SOME items of economic shrapnel from our so-who-won-the-war department...

According to a preliminary report published by the Ministry of Finance, Japan's overall balance-of-payments surplus fell from $7 billion in the calendar year 1977 to $5.9[illegible] billion in 1978. The current surplus, however, rose sharply from $10.92 billion in 1977 to a record $16.89 billion.

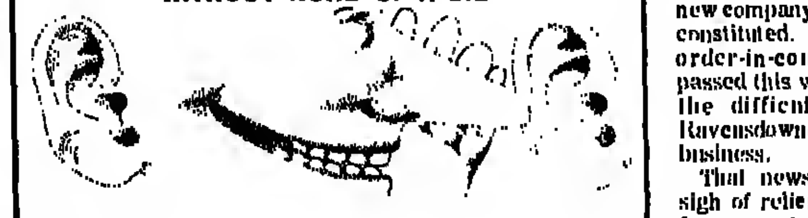
And Japan's cabinet has approved an interim seven year economic programme which projects average real economic growth of just under 6 per cent in the years to 1985.

Meanwhile, West Germany's current account balance-of-payments surplus has narrowed from DM3.8 billion in November 1978 to DM[illegible] billion in December 1978. It had amounted to DM3.3 billion in December 1977. For 1978 the surplus totalled DM18[illegible] billion against DM8.6 in 1977. In 1978 as a whole, the trade surplus totalled DM40.7 billion against DM38.4 billion in 1977.

And the Federal Cabinet has approved the Government's economic report for 1979 which projects real growth for the economy of about 4 per cent this year, following an estimated rise of 3.4 per cent in 1978. The Government does not see the need for further stimulatory measures after the boost given to the economy last year, the effects of which will continue to be felt.

Meanwhile in New Zealand... Well, you can figure that one for yourself while you contemplate the cold winter ahead.

WITHOUT WORD OF A LIE



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EVEN the best laid plans of the Apple and Pear Board seem to go astray. Like its attempt to wipe out apple blackmarketing and curb growers' gate sales by taking the profit out of these ventures.

This year, the board offered growers a higher price for gravenstein apples, and cut its own price to the retailers. The retailers were also promised gravensteins fresh from the grower as soon as they became available.

But this year's gravensteins were late in Auckland, and the shipping strike held up Nelson gravensteins that had ripened earlier.

To encourage growers to supply early-season fruit to the board, a premium price is paid for first-of-the-season gravensteins.

But the board opened the season before Auckland gravensteins were ripe. And some retailers are complaining that board fruit is too green to sell.

Meanwhile, gate sellers are offering ripe fruit, fresh from the gate, at prices that compete with all but the large supermarkets.

•

WORD has it that the National Party faces the kind of administrative dilemma that faced the Labour Party after its defeat at the polls in 1975. No-one wants to be associated with what they perceive to be a loser political party.

For the first time in years, National is having difficulty in filling branch posts around the country, particularly in the South Island area and around Christchurch specifically.

Reports indicate that no one wants to fill posts like branch chairman, branch secretary and so on.

The Nats at head office are of the opinion that dissatisfaction with Prime Minister Rob Muldoon still runs deep, and a diminishing number of party faithful is interested in working for his return in 1981.

But the most alarming news concerns the party's real hierarchy.

There is also some evidence to suggest that the party's only real progressive, chairman George Chapman, might be getting tired of fighting a lonely battle at the top. Unless cabinet and caucus show they are prepared to force Muldoon into a more enlightened administrative pose, the party machine might run into real trouble.

Such a resignation might however prove to be a double-edged sword. On the one hand, major changes in the administration in the party might make National vulnerable to a Labour attack, but on the other it might simply leave it open to rape by more reactionary forces pushing National further to the right.

•

WELLINGTON newspaper publisher INL is moving to sell off its large real estate holdings in order to cover the company's forthcoming dividend.

INL moved, to all intents and purposes, out of the publishing business in the late sixties and moved into the business of buying companies to make good commitments to shareholders, and maintaining dividends. With further expansion now a problem the company has to backtrack and realise on its vast property holdings to produce financial results that are good enough to maintain the share price and pay a reasonable dividend.

With little prospect of a major editorial shake-up for The Dominion in prospect, that paper's continued losses (now estimated at between $300,000 and $500,000 in "real terms"), are becoming an increasing burden.

INL's share price, if the sale of assets like property continues, must continue to fall and the whole group may soon see itself a prospect for takeover.

•

IF you ever wondered what happened to good old-fashioned servility, we have evidence that maybe it was overcome by good old-fashioned boorishness.

The waitress serving an expense account luncheon-party table waited patiently while one of the diners expounded about his dissatisfaction with the performances of both major parties in recent years, and the observation that he was now a "negative political supporter".

"Congratulations," the waitress said somewhat acidly. "Now what do you want to drink?"

•

THE Planning Council's taken its fair share of criticism during the last year, but the Commission for the Future might be limbering up to take some of the flak if a recent statement by its chairman is any indication.

The commission's chairman, J F Duncan, a professor of chemistry, was talking to the Institute of Engineers about the effect microprocessors would have on employment. He made the perfectly valid point that microprocessors had the potential to cause massive unemployment.

But then, talking about the world-wide effect of microprocessors on employment, Professor Duncan said: "If there is going to be massive world unemployment, it is quite vital that we try to isolate ourselves from the world scene."

He went on to say that New Zealand should build surpluses of overseas funds from its boom periods to use in the slumps.

Even a cursory knowledge of economics and New Zealand history shows with abundant clarity that, as a country almost entirely dependent on our export income, we have never and will never be able to isolate ourselves from the world economic scene. The first Labour Government tried to with its "insulation" policies and failed; successive governments have failed; recent overseas oil-price rises alone have tipped our export-import balance drastically.

To talk about isolating the New Zealand economy is about as realistic as the saving-for-a-rainy day theory that has been expounded — and ignored — for as long as we've had an export income. Perhaps it would be an idea, before Professor Duncan makes any more suggestions about the future that he take a crash course in economic history.

They teach one at his university.

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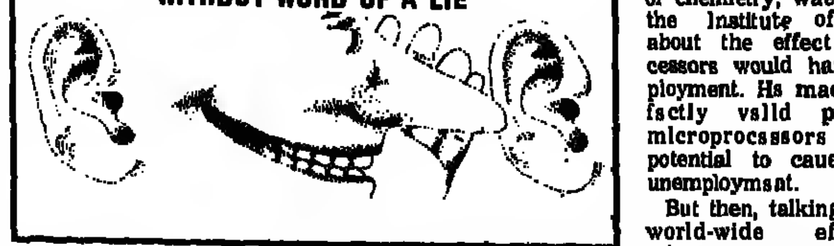
WE know of one aspirant to the Qantas Journalist of the Year Award whose entry may hit the judges' table under something of a handicap. Among his blind spots — and one that will be all too evident in the correspondence that accompanied the articles he submitted — is an inability to spell Qantas. He has a habit of tossing in a "u", which means that Qantas will have to consider first of all if it is gracious enough to give a "journalist of the year" prize to someone who can't spell the name of the sponsoring company.

WITHOUT WORD OF A LIE



Companies vie to buy Perpetual Trustees

by Rae Mazengarb

THE Trustee Companies Management Amendment Bill — passed quickly in the 1978 Parliamentary session — has paved the way for a takeover of the Perpetual Trustees, Estate and Agency Co. of New Zealand Ltd, the Dunedin company which met with financial difficulties in 1975. And already half a dozen companies — including two major insurance companies — have expressed interest in buying it.

Other bidders may include large stock and station agents and companies engaged in the provision of financial services.

Banks may be among the contenders, too, if they follow overseas trends.

But by late last week — though both National Insurance and New Zealand Insurance had declared their interest — no company had made a specific offer.

Before Perpetual can be bought, liabilities and shareholdings must be transferred to a new company according to the scheme provided for under the 1975 Act.

Perpetual ran into difficulties in 1975.

To prevent the company's collapse, the Government passed special emergency legislation — the Trustee Companies Management Act 1975.

Perpetual mortgages were taken over by the Housing Corporation and the Bank of New Zealand was persuaded to advance money to Perpetual.

The legislation required a specially-constituted board of directors.

Further legislation was enacted last year. After discussions with the board, the Government introduced an amendment bill.

At that time, legal proceedings were pending.

A breach of trust action had arisen from an investigation by the board into the circumstances which led to Perpetual's difficulties in 1975.

Introducing the legislation last year Justice Minister Thomson emphasised that during the three years of the statutory board's operations, it had cured much of Perpetual's liquidity and cash flow problems.

But referring to the pending court proceedings, Thomson said: "If the court holds that there were breaches of trust the liability of the company will most likely be more than the net worth of the company together with the reserve liability of $10 per share."

S CHATTEN . . . statutory board chairman

He said the court proceedings — which have not yet been heard — could cause "justifiable concern about the company's future".

The Amendment Act provided for the continuation of the trustee business without affecting the proceedings or interfering with the rights of parties to the proceedings.

The Government had sought a legal opinion as to the fate of the BNZ advances — involving some $5 million. They were in the nature of advances to a liquidator or receiver but appeared at the same time to form part of the general assets of the company, and thus could be lost in a breach of trust action.

Government action taken to avert this possibility, in the opinion of Law Society president L H Southwick, was quite proper.

Apart from creating a statutory scheme which would facilitate a takeover of Perpetual, the 1978 Act amended the principal Act and empowered the court to limit the amount recoverable under breach of trust proceedings to the net worth of the company, including an amount equivalent to the reserve liability on its shares.

Thus the company could be taken over with its liability quantified, should it be held in breach of trust. That would make it a more attractive proposition for bidders.

The statutory board had also discovered a breach of the trust deed in the company's Nuhaka farm forestry scheme arising from the manner in which the original capital was subscribed.

But the scheme had appeared economically sound and it was clear that an action for breach of trust in this regard would not be profitable, in view of the main breach of action which could strip the company of its assets.

The Act therefore provided that failure to meet the minimum subscription should not invalidate the scheme.

Asked what groups might now be interested in buying Perpetual, statutory board chairman S J R Chatten said any company engaged in the provision of financial services might wish to expand its field of interest into the trustee area.

There are half a dozen trustee companies in New Zealand — three in the insurance field, one operated by an accounting firm, and another, run by a stock and station agent.

Marsden B likely to be mothballed

THE Minister of Energy will be given advice any day now outlining the fate of the Marsden B Power Station.

The multi-million-dollar power station was due to be commissioned by January next year.

But an Electricity Division investigation into the performance of all the country's thermal power stations throws doubts on the chances of any electricity being generated from Marsden — certainly in the next few years.

The Electricity Division review follows a 25 per cent down-turn in electricity consumption forecast in last year's power plan.

Electricity officials are tight-lipped about what is in the report, which is currently in private circulation.

But it appears likely that all — or a number — of the generators will be mothballed and attempts will be made to prevent corrosion.

Marsden B has had problems throughout its construction, due to continuing industrial unrest.

It now appears that the NZED — already embarrassed by its grossly overestimated projections of New Zealand's electricity needs — will be left with a white elephant that will be completed at a time when there is no demand for the power.

And at a time when the public is being asked to carry the burden of capital costs in increased electricity charges.

Marsden B is just one of three huge power stations about to be commissioned.

Also nearing completion are the Huntly power station — a dual gas-coal fired operation — and the New Plymouth power station, which is designed for gas.

Those power stations using gas will be used in preference to oil-fired stations.

But with the expected downturn in electricity use following the Government's move to hike costs to the consumer, observers wonder if these other projects might also become white elephants.

At the least, they are unlikely to be operating at full capacity if consumers conserve energy.

Marsden B — in contrast to the Marsden A station, which is designed to burn heavy oil — was designed to be readily converted to gas, should Maui gas be piped up to the area.

Right now such a costly capital development programme does not appear feasible, though it is understood the possibility has been seriously looked at.

Plastics price hike inevitable

THE New Zealand manufacturing sector is almost certain to be hit hard later this year with substantial increases in the cost of plastics.

Because of the high content of plastic componentry in a wide range of manufactured goods, increased costs in many areas are inevitable.

An NBR study has revealed that the cost increases will come from an increasing demand for the use of the "light" fraction in the refining of crude oil. One-third of this fraction is used in raw material for plastics.

This product, naphtha, has increased some 50 per cent in price in the past 12 months. While contract prices have not increased quite so dramatically, the European petrochemical industry has seen its naphtha bill rise by more than 30 per cent in the past 12 months.

There is now strong pressure for a further increase in contract naphtha prices early this year. Overall, the increased cost to the petrochemical industry has been calculated at $2 billion in 1979 compared with early 1978.

During 1978, prices for other oil products, such as gas, oil or heavy fuel oil — were reasonably static, until seasonal increases started in October as demand for fuels increased. Though the political disturbance in Iran and the resultant dislocation in oil flows exacerbated the normal price movements late last year, the rise in naphtha prices was the most significant feature of oil product prices in 1978.

For some years, it has been obvious that demand for the lighter fractions of the oil barrel has outstripped that for the heavier fractions — heavy industrial fuels are facing a nil, or negative, growth.

The demand for naphtha is now higher than ever, and is close to the levels of supply.

In 1978, a number of factors combined to contribute to the 50 per cent price rise:

- Refineries, with weak demand for the heavy fractions, had to balance their production rather than refine extra crude oil with a resultant disposal problem of the heavy oil;
- The refineries were designed to fulfil the demand of the 1960s and early 70s which was dominated by the growth of fuel oil. Only now is conversion taking place to convert the surplus heavy fuels into lighter products such as naphtha and gasoline;
- Gasoline demand in Europe and America was significantly greater in 1978 than forecast. The increased demand of 6 per cent was intensified by the increased requirement for aromatic octane improvers to meet demands for no-lead gasoline;
- Saudi Arabia's decision to restrict production of light fuel oil more than offset the increased North Sea crude oil availability, with its higher content of light products;
- The weakness of the dollar, and stock building ahead, contributed to the late 1978 rises.

European sources have calculated that products such as ethylene, propylene and phenol will increase at least 20 per cent on their mid-1978 prices.

There seems little doubt that the already troubled New Zealand plastics industry will be affected by a reduced demand for its products. Until recently, the industry has benefited from comparatively low raw material costs, on an international scale — and the industry has shown strong growth for more than a decade.

In 1979, the industry will be facing competing demands for the "light end" of the barrel. Where products become short due to lack of capacity or available raw materials, price rises higher than those relating only to naphtha may occur if industry profitability is to be restored.

NBR BUSINESS WEEK

Stock Exchange: time to run a tighter ship

by Peter V O'Brien

THE administrative changeover in the Stock Exchange Association of New Zealand gives the organisation a good opportunity to tidy up its internal activities, and to improve the "service" it gives to members and to the public.

The new secretary could usefully shake up the association's dissemination of information from member exchanges and companies.

Brokers, the press, and others who deal with this information can cite many cases of inaccurate announcements, delays, and general sloppiness. NBR of November 29, 1978 gave examples. They include erroneous reports, misprints, drastic precis of company announcements, and failure to publish company information until the next day if it was received in the association's office late in the afternoon. The last point caused embarrassment to at least one listed company last year when it filed information in the local exchange and later released it to the local newspapers. The result was that the preliminary result of the year appeared in one city's press, but not in others. The association passed on the figures the next day.

A recent example of a mistake was the announcement of a special sale of Challenge Corporation shares. The sale was reported as being 700,000 shares, when it was actually 70,000. The mistake is understandable, because misprints can occur anywhere. Checking would assist in keeping them to a minimum when the figures are important to people involved in investment and research work.

The association corrected its error the next day by saying that 70,000 shares had been sold, but there was a period of uncertainty until the correction was published.

The association's other omission in recent times relates to the activity surrounding New Zealand Pastoral Holdings Ltd. After the Hawke's Bay consortium made its takeover offer, it was revealed that Broadlands Dominion Group Ltd, had previously sold a 35 per cent stake in Pastoral Holdings. Apparently this sale was not reported to the association.

But a 35 per cent holding in a listed company would seem to be a matter material to any company's financial and trading structure, even in a finance house with assets in excess of $100 million.

The Pastoral Holdings case can be distinguished legally and formally from the association's rule that an attempt to issue more than 10 per cent of a company's capital must be approved in general meeting.

No new capital was issued in the Pastoral Holdings situation. A listed company was selling effective control of another listed company, something private investors can do at any time. But private investors are not listed companies.

The Auckland finance house probably thought the issue was immaterial. The association could have taken the trouble to elicit even that reply. If the organisation has another look at procedures, it could include some assessment of other practices. Last year, the association dealt at length with a problem involving a member and investment funds. Various decisions were reached after the hearings, but they have never been made public. There has not even been a statement that the association held an inquiry. Some brokers say the question was an internal matter.

Other professional bodies have been criticised for the manner in which they handle such issues. The Stock Exchange Association says it is a professional body, and also says it is an expert organisation in the securities industry. The public is just as entitled to know what happens in the association's affairs as in other professional organisations.

The matters which crop up regularly in the Stock Exchange Association are individually minor. When added together they indicate sloppy activity which sits oddly on a professional body, particularly a body which has been vociferous about freedom to control its own affairs.

No doubt the association will make regular submissions to the Securities Commission when that body is set up and starts work. The irony of the present situation is that the commission could usefully engage itself in ascertaining whether the association is filling its role effectively, and providing the public with a service commensurate with the legal status of its rules.

There is no need for any massive alteration to the present system of running the country's equity transfer market. Tightening up administration is the only requirement. The association could then legitimately say it ran an orderly market, and provided the service which makes the orderly market an informed market. The latter is necessary before the former can operate.

"As I told this young chap applying to join the firm, right now an economics degree is the last thing one needs around here."

Air conditioning: breakthrough saves energy and dollars

An interview with Mr F. J. Needham, designer of electro hydronic air conditioning equipment made by McAlpine Prestcold Limited under licence to Singer, U.S.A.

Q: How does this system work?

NEEDHAM: Basically this heat pump system means we put an air conditioner into each specific zone of the building and use it to pump heat into or out of the zone. All units are connected together on a water loop circuit so that the heat is actually being transferred between the water and the zone. As a result, in many cases we do not have to create heat since we can often pick up and transfer enough around the building for it to become self-sufficient.

Q: Will it save power and money?

NEEDHAM: In comparison with other systems available today, YES! Both the first cost and operating costs are low. Separate tenancies can be metred in office buildings, hotels, multi-shop complexes, supermarkets. High rise office blocks all suit this system. Architects and engineers should ensure they contact their nearest agent when designing buildings as initial costs are often ⅓ less than other systems.

Q: Is this a new system or is it being used successfully in buildings today?

NEEDHAM: The system is not new. It was devised around 1955 and there are thousands of installations all over the world. Present interest in the system is largely a result of increasing energy costs. It seems to be an old idea whose time has now come. Currently in N.Z. this system is being designed into a large proportion of new installations, especially in high rise office blocks where a noise level of less than NC 35 can be obtained.

Q: Does the system offer individual control of areas and do you actually see a unit in the area?

NEEDHAM: The system provides room by room control and the machine appropriate to each room can be mounted either on the floor where it looks like a typical fan coil unit or alternatively, it can be mounted above the ceiling.

Q: Does the whole system have to be installed during construction?

NEEDHAM: 'NO'. Provided the water loop piping is installed, equipment can be added at any time in the future.

Q: What are some of the heat sources which are available round a building?

NEEDHAM: Well, a primary heat source is the sun and the advantage of this system is that we can transfer that heat around to the cold side of the exhaust air, lights, people and business machines. In hotels and motels, we can recover the heat from the kitchens, bars and dining rooms and use it to heat the bedrooms. All heat from refrigeration equipment can be recovered and in a Supermarket, there would generally be enough of this to heat both the Supermarket and a considerable number of specialty stores besides.

Mr F. J. Needham at the Auckland International Airport new terminal, one of the buildings using the Singer EHC System.

Q: What happens if you cannot recover enough heat for the building's requirements?

NEEDHAM: There are two options. Firstly, supplementary heat is supplied to the water loop. We can do this with a conventional boiler or install a storage tank into the water loop as a "bulge in the pipe". During each day's operation the storage tank fills up with hot water at about 100°F. This water is then used on the next day to warm up the building. If the tank water is not hot enough it can be heated overnight using "off-peak" electrical power.

Q: If there is too much heat in the water, how is this removed?

NEEDHAM: The water loop is taken outside the building and run through an industrial cooler. An alternative method uses a cooling tower and heat exchanger. Both methods get rid of the heat without contaminating the water.

Q: Does the system use more or less space in a building than a central plant system.

NEEDHAM: The system will always use less space because of its decentralised arrangement and extreme flexibility. Large plant rooms are eliminated giving more nett letable area.

We will be happy to discuss your requirements.

McAlpine Prestcold Limited

Analysing annual accounts

by Peter V. O'Brien

THE annual report of Waitaki NZ Refrigerating Ltd maintains its usual standard, but those days a meat company has to meet a new set of reporting standards. A "satisfactory" report in this industry must be measured against the effort of the Canterbury Frozen Meat Co. Ltd, discussed in NBR on December 13, 1978.

CFM produced revenue figures for each main section of the business, a breakdown of expenses, and information relating to the tax provision.

Freezing companies have traditionally hidden behind the outdated provisions of the "Companies Accounts (Freezing Works Companies) Exemption Order 1858" when refusing to disclose taxation information.

Waitaki gives the tax figures, to its credit, but the company is reticent about revenue and expense information. The point was made here last year, but the company has again declined to give the figures.

The group's officers have said that the business mix makes it difficult to publish revenue figures without misleading shareholders and other readers. While that point is appreciated, someone has worked out how much came into the cashbooks as company revenue, because the company has to have that information before it can assess the earnings remaining after the deduction of expenses.

While it can be accepted that Waitaki's executives are experts in their business, what level of expertise is needed to understand the composition of revenue, irrespective of its complexity?

The point is important, because the managing director takes space to tell readers that the meat industry "has been unfairly criticised by Government, Federated Farmers and the New Zealand Meat Producers Board and others, for many facets, often beyond the control of the industry". In another passage he says: "It is depressing to be aware that the knowledge and understanding of the complexity of the industry by the Government, the farming community, by the academic economists and marketers or the general public is extraordinarily limited."

E J NEILSON . . . Waitaki NZR managing director

Part of the problem may relate to public relations within the industry, a matter which seems, to the outsider, to have been grossly neglected over the years. But companies can assist matters if they provide financial information to show just what happens to the substantial sums of money moving through the accounts.

For example, Waitaki earned $8.5 million in 1878 after tax, compared with $7.5 million in the previous year. The earnings, after deduction of the normal operating expenses, went from $10.4 million to $12.4 million.

Gross earnings, therefore, were 18.8 per cent higher, while after tax profit moved up 12.9 per cent.

But what happened to revenue and expenses? Did the latter squeeze the former? Are costs running ahead of income? Those questions are relevant to "knowledge and understanding of the complexity of the industry". Perhaps the company will take another look at the problem.

The group's financial structure changed considerably over the year. The explanations for the major movements are adequate, while being expressed in general terms.

A jump of $15.2 million in accounts receivables was the most spectacular movement in the balance sheet. Waitaki says "although a good proportion is attributable to increased trading, this item also includes a large amount due in respect of the settlement of a fire claim and further amounts which have also since been received".

That leap had a corresponding effect on group funding. The bank overdraft increased $3 million (33 per cent) to $12.7 million, commercial bills outstanding went from $1.9 million in 1977 to $6.2 million last year, there was an increase of $5 million (to $21.87 million) in accounts payables, and other term and current liabilities went up $8.8 million. Part of the latter amount relates in movements in fixed assets, but there was also an increase of $5.2 million in associated company investment, arising particularly from the acquisition of about 22 per cent of F J Walker Ltd, the Australian meat company.

As a result of these various movements, the relationship between shareholders' funds and total assets (the proprietorship ratio) fell from 54.8 per cent in 1977 to 49.5 per cent. The relationship is still healthy, although a continuation of the trend would send Waitaki to the market for more equity capital.

The effect of the greater funding required from sources outside the group shows up when cash flow is related to total assets. In 1977, Waitaki's cash flow was 8.1 per cent of the group's total assets. Last year it was 7.8 per cent, in spite of a 12.9 per cent increase in net profit, and a 17 per cent lift in cash flow.

Exchange rates

As at February 15, 1979.
$1NZ is worth:

Australia	.8302
Britain	.5242
Canada	1.2535
Fiji	.8681
Japan	209.01
West Germany	1.0384
USA	1.0501
Austria	14.16
Belgium	30.60
China	1.6451
Denmark	5.3729
France	4.4589
Greece	37.84
Hong Kong	4.9932
India	8.5[illegible]
Italy	878.[illegible]
Malaysia	2.[illegible]
Netherlands	2.[illegible]
New Caledonia and Tahiti	81.[illegible]
Norway	5.3[illegible]
Pakistan	10.[illegible]
Papua-New Guinea	Not Available
Portugal	49.[illegible]
Singapore	2.2[illegible]
South Africa	.8[illegible]
Spain	71.[illegible]
Sri Lanka	Not available
Sweden	4.5[illegible]
Switzerland	1.7[illegible]
Western Samoa	.[illegible]

Key indicators

		Current Period	Previous Year	Per Chg
Consumers Price Index — all groups base Dec 1977 = 1000	Dec 78	1101	1000	+[illegible]
Building Permits Issued	Oct 78	$103.3m	$81.4m	+[illegible]
	Oct 78 yr	$1051.3m	$1113.1m	-[illegible]
Official Overseas Reserves	Dec 78	$381.7m	$381.6m	+[illegible]
Registered Unemployed — incl those on special work schemes	Dec 78	32,759	21,432	+[illegible]
NZUC Share Price Index	15 Feb 79	230.91	200.06	+[illegible]
Reserve Bank Share Price Index	14 Feb 79	1309	1251	+[illegible]

More talk - — but 'package' kept under wraps

by Peter V O'Brien

"WE had it easy for years, privileged relationships with poor countries which supplied us with raw materials; a domestic market protected from international competition; and secure export markets. That's all over. As of now, we are paying the full price for raw materials. The price won't be going down, and we shall have to meet industrialised, advanced-technology countries on equal terms...companies will have to win or die. Winning is being competitive — in the domestic market as well as in exports. Freeing prices is just the start."

Another spiel from an academic economist or planner about New Zealand's fate? No, just the words of France's Economics Minister, Rene Monory, quoted in the latest edition of Forbes magazine. We omitted "French" before the word "companies" in the quotation, to make the comment particularly relevant to New Zealand.

Among Monory's other comments is "price control is not the way to fight inflation".

"Look at West Germany. They don't have controls and their rate of inflation is one of the lowest in Europe."

While the French and German economies are structurally different from New Zealand, the Minister's words and actions are remarkable in a country which has been totally under the bureaucratic thumb since the 1940s.

The policy of freeing prices received assistance from a decline in the dollar against the franc, which lowered import prices, and from a disorganised union force.

The French are also looking at ways to break down central control of the economy (and of individual businesses) to meet international competition. Power to make decisions is moved from the centre to the operating parts, and State organisations redistribute their power to a number of smaller organisations. This attitude to economic and eventually political power is currently termed "decentralisation", which is apparently becoming an "in" theory.

It obviously has its origins in many other theories about power distribution, economics, social groups, "alternative life styles", and the "small is beautiful" concept. No doubt it will attract its disciples in New Zealand, particularly as the activities of the Planning Council create further frustration among people who want to see things done, rather than talked to death.

And there is plenty of talk. The address by Broadbank general manager, planner, and overall business big shot Don Brash to the Accountants' Society Summer School is among the latest speeches.

Brash identified the problem areas (overseas deficit, decline in relative living standards, the need to restructure and so on), and put forward some solutions.

Brash wants a "package", along the lines recommended in the Planning Council's Economic Strategy 1979 but he also followed the council's line in omitting specifics.

That omission was covered in a strange sentence "What the package should contain only those closer to government than I am can finally decide." If those people have to take the decisions we can fairly ask who needs councils and so on?

Apart from removing price control, control on overseas investment, phasing out export incentives and import licensing, Brash advocates a change in the exchange rate, and variations to taxes, including a capital gains tax.

The last two items receive little detailed discussion, apart from an examination of the pros and cons of devaluation. It is difficult to see what Brash is getting at, because he acknowledges the problems with devaluation, and points out that certain conditions are necessary for a successful formal realignment. There is no evidence in the address that the conditions (tight monetary policy, vigorous competition in product markets, and trade unions which will not try to offset the effect of devaluation in internal income distribution) exist at present in New Zealand. So what is this "change in the exchange rate"? Is it in fact a recommendation for a formal devaluation, and if so how is it justified in present conditions?

It is worth noting that the British authorities have expressed the view publicly that "the benefits to competitiveness from a lower exchange rate come quickly and then decline progressively", but the resultant inflation means that "industry begins to suffer in a great variety of ways which themselves damage competitiveness — higher interest rates, a demand for increased working capital and uncertainty hindering investment".

The benefits from a higher exchange rate "come fairly slowly but then build up over a period of years". Another British quote on the same subject is also relevant: "You work from monetary policy to the exchange rate, not the other way around, because you cannot enforce the policies necessary to make the change to the exchange rate stick."

The devaluation argument in New Zealand was drummed up more than a year ago. All its supporters seem to overlook that practical economics is finally a political issue. (That is in addition to more fundamental arguments against a formal devaluation.)

The capital gains tax idea has also been around for some time. While Brash says that "Frankly...the precise details are not of crucial importance" when talking about general policies, that is no answer to a lack of detail on a capital gains tax, because "precise detail" is of crucial importance when talking about a specific type of tax. Perhaps Brash would like to be more specific on these issues so that the rest of us can have something to debate?

Vacation Motels: well placed for future growth

by Peter V O'Brien

INVESTOR INSIGHT

VACATION HOTELS LTD is shaping up as a strong force in the hotel-tourist industry.

The company recently announced a substantial rise in earnings to $925,525 for the year to October 3. When the group's specified preference capital of $875,000 is treated as converted to ordinary shares, for the purposes of realistic calculation, the earning rate comes out at 11.45 cents a share (22.9 per cent). The company has lifted the dividend payment to 5.5 cents (11 per cent), and the earning rate covers the payment 2.08 times.

Last week, the shares moved up to 70 cents, where they have a dividend yield of 7.9 per cent, and a price-earnings multiple of 5.87 (again treating specified preference capital as converted).

That figure is reasonable given the present state of the market, but there is room for future appreciation assuming that the group's profitability is maintained in the current term.

The state of the group's Intercontinental Hotel deal in Auckland will be a key to current profitability. The Big I has been through troublesome times, but now seems to have settled down, and should be enjoying good occupancy rates.

Auckland has a considerable shortage of hotel accommodation, a factor which should be improving the occupancy rates of the leading hostelries. The Intercontinental has problems of course, not the least being a lack of air conditioning, which can affect the well-being of people from more temperate parts of the country (or the world) when the muggy weather strikes Auckland. But many people take a room there when they find other hotels full, and the tour trade provides a steady flow of occupants throughout the year.

Vacation in past years has suffered from a problem common to all tourist-based groups which endeavour to run capital intensive assets from a comparatively low capital base.

The company is overcoming that problem, and now has less strain on financial resources.

In 1977 (the date of the last available annual accounts), shareholders' funds were $7.4 million, and total assets were $12.9 million. The proprietorship ratio, therefore, was 57.7 per cent.

In 1974, shareholders' funds totalled only $1.0 million from total assets worth $4.0 million, to give a relationship of 35.3 per cent. In earlier years, the relationship was even lower. Funding hotel operations from such a base inevitably causes growing pains until an organisation reaches a "plateau" from where it can generate internally the activity and finance necessary to bring longer-term stability to its operations.

It is interesting to note that Vacation's profit in 1974 was $210,373, and $925,525 in the year to October 31, 1978, after reaching $553,783 in 1977.

Profit has risen 340 per cent in the period. When the final accounts for 1878 are produced a comparison can be made with the movement in shareholders' funds. (Between 1874 and 1977 shareholders' funds increased 357 per cent.)

Vacation has about 1200 hotel and motel rooms under its control, scattered throughout the country. The company, therefore, is well placed for future growth through higher room occupancy.

Tourism is facing problems through the shortage of rooms, and the high cost of providing them. The Tourist Advisory Council has reported that the provision of the 1875 new rooms estimated to be needed by March 1981 would cost $75 million at current prices. The estimate takes an average price of $40,000 per room, a high figure, but one which is still much lower than that applicable in Australia, for example.

The companies which already have the rooms are consequently well placed to fill them, because there is unlikely to be an additional 1875 new hotel rooms built between now and March 1981.

Since occupancy (at the right prices) is the basic factor for a profitable hotel, Vacation should enjoy increasing earnings for several years, assuming there is no upheaval in present management policies, nor any rash development beyond the group's resources.

The latest result provided a good capital gain for investors who bought in during 1978 when the share moved around par (60 cents), occasionally nudging down into the 40s, and up to the higher 50s. A buyer at, say, 58 cents (a reasonable entry point last year) was showing a profit of 27.3 per cent last week, and would be enjoying a dividend yield of 10 per cent from the entry price.

The present outlook is good for the company, after a tough time for tourist operators from 1977 until recent months.

At present prices, the shares look worth a punt for the medium term. Unless some unforeseeable disaster hits either Vacation or the sharemarket, they are unlikely to be back in the 60s for a considerable time.

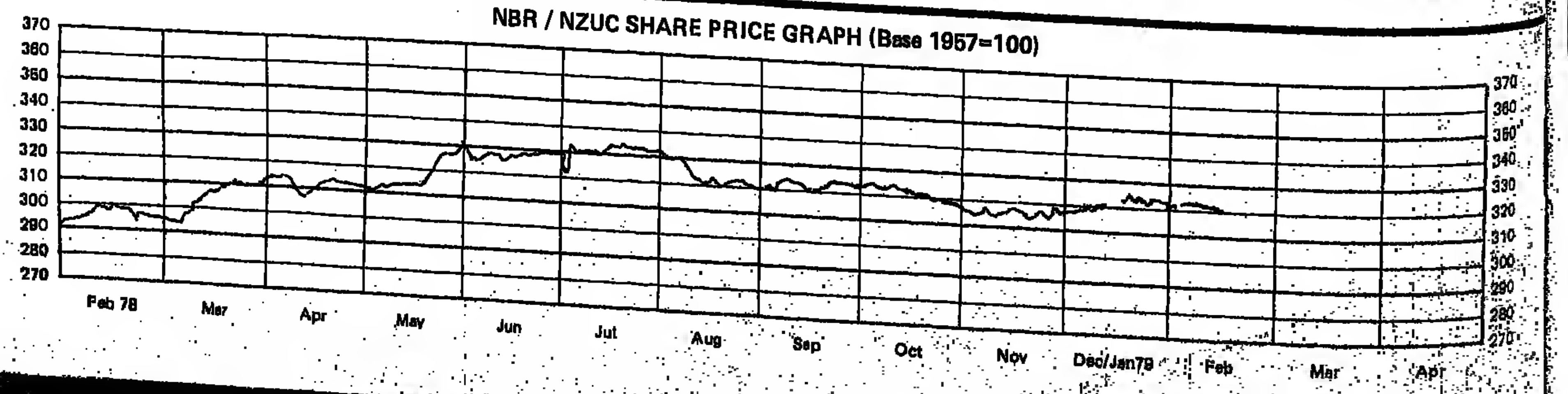
NBR SHAREMARKET SURVEY

WEEK ENDING FEBRUARY 15, 1979

1979 High	1979 Low	Company	Last Sale	Week's High	Week's Low	Dividend %	Reported Turnover	Dividend Yield	P-E Ratio
100	100	AIRWORK,50C	100	...	...	12.4	0	6.0	1.1
190	120	AJAX [illegible]	110	100	100	13.0	100	6.5	5.1
90	76	A.J.WHITE	90	...	...	11.5	0	12.8	4.2
120	115	ALCAN,50C	120	120	120	20.0	1800	8.1	5.1
255	251	A.M.I.	250	250	245	14.0	7700	3.4	5.5
75	72	[illegible]	73	74	73	13.0	7700	8.9	5.4
248	230	ALLIED [illegible]	250	245	243	14.0	76400	3.4	5.0
130	122	ALLIED PRESS	150	150	130	10.5	2400	.9	5.1
		ALLOY STEEL	275	...	...	12.0	0	4.6	10.9
		AMALG.[illegible]	160	...	...	13.5	0	8.4	5.4
195	190	A.M.BISLEY,50C	190	100	180	20.0	5100	5.1	5.2
90	86	[illegible] PLT.,50C	86	80	86	11.0	300	6.5	15.4
128	125	[illegible]	175	125	125	12.0	12700	1.4	6.0
125	120	[illegible]	120	120	120	14.0	1500	11.7	2.6
200	200	A.GRANT	240	...	...	17.0	0	6.1	3.1
190	128	[illegible]	180	180	180	15.0	600	2.8	1.1
125	125	A.ELLIS	125	125	125	11.0	1800	8.4	1.1
330	110	ARTHUR [illegible]	370	330	326	17.0	600	8.4	1.5
315	175	[illegible]	515	315	514	22.5	1300	5.1	5.7
205	168	A.B.PATERSON	203	204	205	15.0	12300	7.1	1.9
171	171	[illegible]	175	175	175	14.5	1100	7.4	3.8
51	46	ATLAS,50C	50	50	47	17.5	[illegible]	9.5	5.3
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

1979 High	1979 Low	Company	Last Sale	Week's High	Week's Low	Dividend %	Reported Turnover	Dividend Yield	P-E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NBR / NZUC SHARE PRICE GRAPH (Base 1957=100)



Carrying the spirit of Export Year beyond 1979

EXPORT YEAR has all but run its course. And if any businessman has not realised that we have baen in the middle of an export drive, he desarves to be exiled to the Ulan Bator office.

Almost averyone has leapt on to the Export Year bandwagon. Tha politicians, the academics, the media, and even businessmen, have trumpeted the message loudly.

And why not? It has mada good copy after all: the good of the country and all that; the ads on the telly; tha ubiquitous Export Year posters decorating several thousand office walls.

There's no doubt, then, that tha Export Year campaign has been a PR success in getting the word "export" across. But how successful has it been in tarms of increasing export sales and in persuading companies to spend the time, effort and money in actively touting thair wares abroad? And what next?

Allan Parker reports.

THE launching of Export Year last April could not have come at a worse time, PR-wise. After several years of spectacular gains, export growth dropped below 10 per cent for the first time in 1977-78.

In 1975, total export receipts were $1656 million. The next year they jumped by a third ($553 million) to $2209 million. And from 1976 to 1977, the rise was even more spectacular — an increase of $991 million (41 per cent), to $3120 million.

But then tha boom hiccoughed. In the March 1978 year, export receipts were $3395 million — a rise of some 9 per cent. This was a dramatic leap downward from previous years and did not even keep pace with inflation.

In the first six months of the year ending March 1979, export income totalled $1854 million. Doubling that for the remaining six months gives a figure for 1979 of $3708 million, representing a furthar rise but still under 10 per cent and still below inflation figures.

It will be some time before the hard cash success of Export Year can be gauged. The delay in obtaining statistics hinders this. More importantly, it takes more than a year to start an export campaign and build up sales.

The Export Year Committee, established by the Government to promote the concept of Export Year, is hopeful that its campaign has renewed interest in exporting and encouraged new companias to seek outside markets.

Its $200,000 budget ($35,000 for build-up PR, and $165,000 for promotion during the year) has been spent almost entirely on publicity, promotions and fees.

But that effort will be wasted if the theme of Export Year is allowed to drop out of sight. The committee is well aware of this, and is discussing ways in which the theme can be carried through into 1979 and beyond.

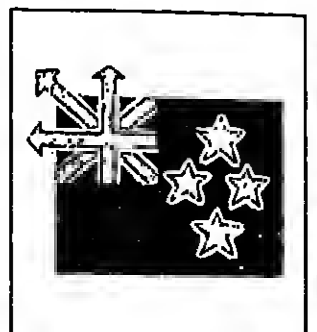
Export Year adviser Alan Topham, recruited from Ceramco's Crown Lynn to act as travelling salesman for Export Year, says he thinks Export Year has created a climate of interest.

"We've certainly had an encouraging interest from management," he notes. "And the labour force wants to get involved."

Now, he says he believes, it is important to get something positive from that interest. And that "something positive" must flow initially from management.

Topham has been expounding his list of six management "musts" to make exporting work for the individual firm:

- Have a statement of total commitment by tha "boss";
- Set up an export committee;
- Appoint an executiva to follow up and report back;



- Insist on regular export meetings and keep them alive;
- Publish your own export newsletter;
- Insist on better communications from top to bottom.

He sees the main value of Export Year as an attention-getter and an opportunity for companies to reconsider exporting. Now he would like to see those companies lock an export programme into their own in-house systems.

It won't be easy to achieve. Many would-be exporters hava taken one brief look at the whole field and recoiled in horror.

Two big barriers are a lack of hard cash, and a lack of marketing skills and backing facilities.

The export tax incentives are valuable, but companies still have to shell out the cash first before getting the taxation rebates at a later date. This cash flow problem has been particularly daunting for small businesses which have worthwhile wares to sell. The availability of pre-shipment finance from such organisations as tha Development Finance Corporation is a help here.

The big problem for small- to medium-sized businesses, then, is basic: how do we start?

There is no lack of products available, soma of them very sophisticated and of high quality. New Zealand companies can generally be proud of the quality of their products.

But the problems arise when the products leave the factory door. Increasing the efficiency of the export servicing sector — be it transport, finance, marketing, language skills — must remain a major objectiva of this country.

Another area of concern is the fragmented approach to exporting. Kiwi belief in the sanctity of the individual helps add to inefficiency in exporting. Co-ordinated pools of expertise are vital.

And how many export orders have been lost through the sheer lack of size of companies? This was evident at the Los Angeles trade fair late last year when several companies were approached by prospectiva buyera for large-scale orders throughout the United States. They had to turn down the orders because they could not handle the volume required by the buyara.

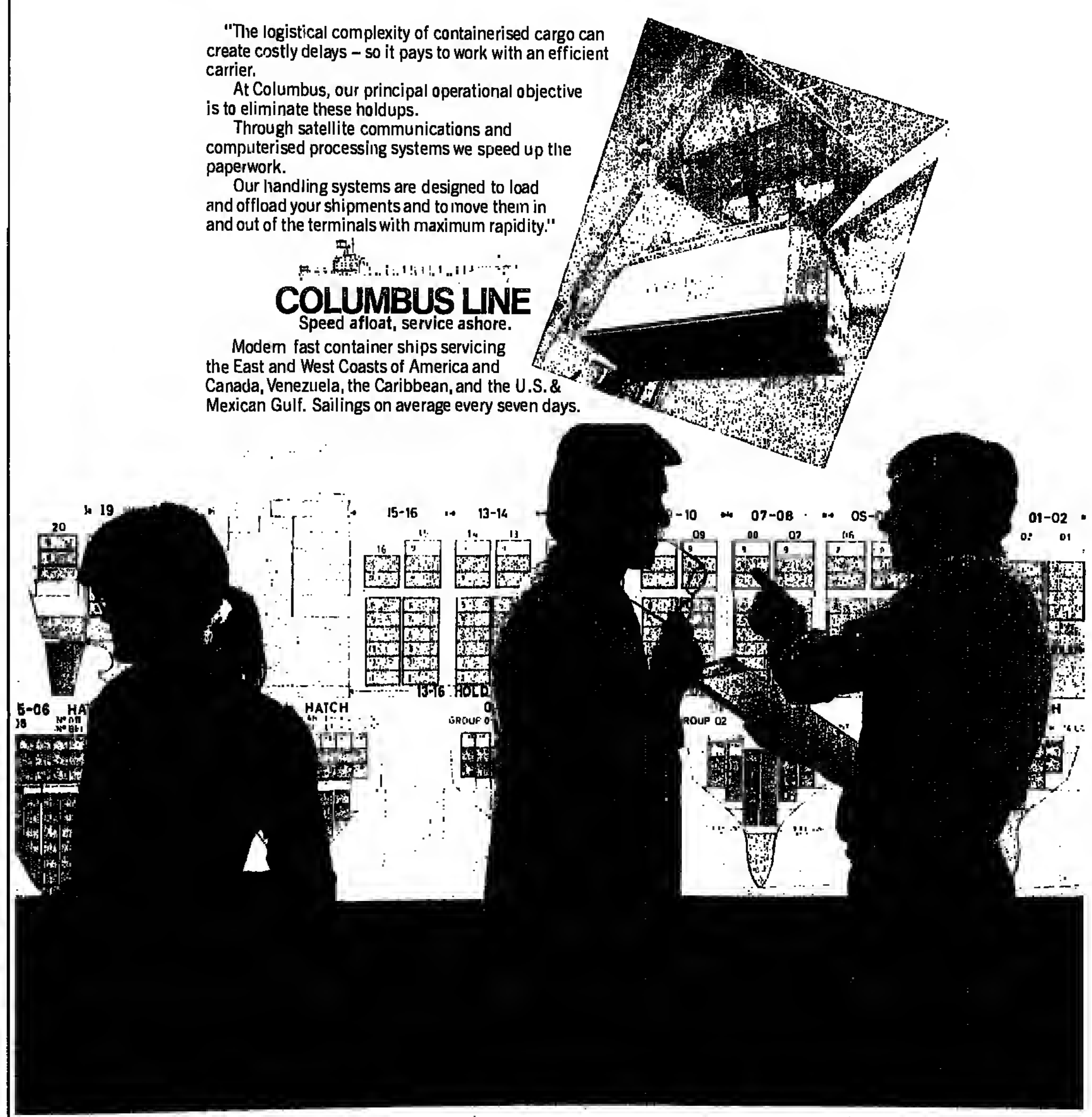
Is one answer tha pooling of orders among several companies to meet tha buyers' requirements? A drastic step, perhaps, but it would help ensure continuing work and encourage the high quality required for the international marketplace.

Economic conditions have forced the increased awareness of exporting as an alternative to a depressed home market. One of the most important tasks ahead will be to persuade companies to maintain their export drives when the domestic market picks up again.

The start-stop approach that has characterised New Zealand exporting efforts in tha past has caused untold damage to overseas confidence in our ability — and conviction — to become suppliers to the world.

Export Year spawned the slogan: "Let's all make it work."

Perhaps the 1979 slogan should be: "Now don't throw it away."



Public accounts reflect pocket-book politics

Economics Correspondent

THE ECONOMY

TO public servants ambitious for the development of their own departments, an election year can be a year-long spending spree. Incumbent Governments, intent on maintaining the Treasury benches and recognising the influence of the pocket-book on voting behaviour, tend to hold a loose rein on public spending.

The Public Accounts for the nine months ended December 31, 1979, show that this election year was no exception. Muldoon is apparently even more susceptible than other Prime Ministers to the temptation of pocket-book politics.

Not much of an increase was originally budgeted for Government spending. The appropriation of $6355 million published in the 1978 Budget was less than a 12 per cent increase over the level of spending in 1977-78.

But just in case the Budget appropriation proved too small, another $250 million was set aside for supplementary appropriations later in the year. This, as the Government knew at the time, was not even enough to cover public servant salary increases effective from October 1, 1978, and by September it was necessary to vote additional funds to Government departments. Then, another $250 million was voted for Government spending, bringing the total up to a little over $6855 million for the year.

To date, Government departments have officially appropriated nearly 21 per cent more this year than they spent last year.

And it now appears that these official appropriations are insufficient to cover expected Government spending.

The summary of the Government's accounts, published on this page, shows that so far this year, total Government expenditure equals 78 per cent of the year's allocation of $6858 million. If spending followed a normal pattern, most departments should have spent only 75 per cent of their budgets at the end of nine months.

Often in the past, Government spending in the first nine months has been less than 75 per cent of the total appropriation. Spending usually catches up in the last quarter as the Government rushes to pay off its bills before the end of the Budget year.

Based on information contained in the December accounts, it seems likely that Government spending this year will be at least 23 per cent greater than it was last year. With the rate of inflation nearing 10 per cent, this implies a real (volume) increase of around 12 per cent in Government expenditure.

The big question is how the Government will finance its expanding expenditure this year without adding to the inflation rate. Unemployment, outward migration, low company profits and tax cuts have caused growth in the tax take to dwindle. While the Government's spending is growing at a rate of nearly 23 per cent, the total tax take is expected to be less than 6 per cent above the previous year's takings.

In fact, the tax take could be even lower. It is difficult to analyse tax flows from the information in the public accounts. Because of the nature of the tax laws and the Inland Revenue Department's method of administering these laws, tax receipts do not flow evenly into the public accounts. And when the tax system is extensively changed, as it has been this year, it is difficult to estimate the effects of any changes which have been made.

PAYE tax deductions are not due until the month following payment of salaries and wages, so it is still too early to gauge the effect of the tax reductions effective from October during one quarter.

But we do know that direct tax collections are down.

Last year, $1944 million had been collected in direct taxes by December. This year, only 1.5 per cent more was collected by the end of December, or a total of $1972 million. Last year, direct tax collections for the first nine months were 54 per cent of the total collected for the year. If this year's December take turns out to be 54 per cent of the total, direct tax collections will reach $3592 million, $332 million less than the Government said it expected to collect in its Budget.

It is possible that some of the shortfall in direct tax collections will be slightly offset by larger than expected indirect tax collections.

But it all adds up to strong evidence supporting our view that the deficit this year will be substantially above the Budget estimate of $1050 million. If Government departments continue to spend at such a fast rate, and if growth in the tax take maintains its slow pace, the central Government's deficit before borrowing could be more than $1600 million.

SUMMARY OF THE GOVERNMENT'S ACCOUNTS BUDGET TABLE a:
December quarter 1978

	Budget 1 Estimate 1978-79 ($m)	Dec Qtr Account ($m)	Qtr as pct of Budget Estimate (pct)
EXPENDITURE:			
Administration	565	461	82
Foreign Relations	393	280	77
Development of Industry	885	666	75
Education	930	770	83
Social Services	1,872	1,570	75
Health	883	707	72
Transport and Communications	294	17	58
Debt Services and Misc. Investment Transactions	597	404	71
Imprests Outstanding 2	—	78	—
Sub-Total	6,488	4,905	78
Miscellaneous Financing Transactions	368	261	78
	6,858	5,166	75
(A) TOTAL EXPENDITURE FINANCED FROM:			
Income Tax	3,865	1,927	50
Customs	290	215	73
Sales Tax	406	303	75
Beer Duty	65	42	64
Highways Tax	161	110	73
Motor Spirits Tax	148	101	71
Other Taxation	217	166	77
Sub-Total Revenue	5,157	2,862	56
Interest profits, Misc. Receipts	418	339	79
Other Receipts 3	—	218	—
(B) TOTAL RECEIPTS	5,555	3,409	
(C) DEFICIT BEFORE BORROWING ((B)(A))	1,301	1,757	

1) Includes $250 million supplementaries in Budget plus an estimated $250 million appropriated in September.
2) Imprests outstanding refer to monies spent but not yet classified by expenditure type.
3) Includes Trust Account receipts and Suspense Account, i.e. monies received but not classified.

W. German delegation due

A DELEGATION of West German scientists will arrive in New Zealand later this month to discuss energy matters and prospects for future cooperation between the two countries under the Scientific and Technological Cooperation Agreement. They will also review progress made so far in implementing the agreement.

The visit may pave the way for West German investment here, capitalising on New Zealand's power surplus.

The 10 to 14 man party — with representatives from the public and the private sectors — will be led by Government representative Dr A Zieglar, director of non-nuclear energy research for the Federal Ministry of Research and Technology.

Representatives from the private sector — mainly involved in chemical or coal industries — include Professor K H Inhausen, director of Inhausen International, a large chemical company.

The visit — first proposed some months back — is expected to be brief. But in particular, the delegation will look at the production of synthetic fuels, for example, coal gasification.

Late last year, the then Energy Minister George Gair announced that West German interests would come to New Zealand to look at ways and means of using the South Island power surplus.

The programme for the trip has been arranged by the DSIR and the Ministry of Energy in cooperation with the West German embassy here.

While the Zeigler-Inhausen group will be interested in the scientific aspects of our energy potential, in March another delegation will visit for commercially oriented discussions.

The possibility of commercial investment in New Zealand could be considered during that visit.

Selling the sportsman

ADMARK

QUESTION: What do Arnold Palmer, Bjorn Borg, Jean-Claude Killy, Jackie Stewart, Greg Chappell and Muhammed Ali have in common?

Answer: Apart from being world-famous sportsmen in the millionaire class, they are all clients of an enterprising marketeer known in some sporting circles as "Ten per cent" McCormack. And that has not a little to do with the fact that they are world famous and in the millionaire class.

Mark McCormack had been practising law for less than five years when he started to arrange exhibition appearances for one client, world-class golfer Arnold Palmer. From that event has grown one of the most sophisticated marketing and management conglomerates it is possible to imagine.

This internationally-organised group of companies, known as the International Management Group, operates from 13 offices in 10 countries. The New Zealand operation, located in Christchurch, is headed by Jack Urlwin, vice-president (international).

On the one hand it promotes and sells the athletic abilities of professional sportsmen and women in a number of ways to produce an income for them; on the other, it provides them with management services to safeguard that income through tax, insurance, investment and financial services.

The list of clients reads like a who's who of world professional sport. New Zealanders figure under the headings of golf (Bob Charles, John Lister), squash (Bruce Brownlee, Murray Lilley) and cricket (Glenn Turner).

The foundation company, International Management Inc., exists to capitalise on the ability of its golfing clients by way of endorsements, licensing, exhibitions, tournaments and special events. Other associated companies provide these professional management services to clients in a broad range of sports including tennis, squash, badminton, skiing, skating, motor sports, cricket, boxing and even fashion and broadcasting.

Illustrating the one-stop-shop nature of the complex, there is a division which oversees all the literary activities of IMG's sports and celebrity clients, another which creates and develops sports films and television programmes, and separate companies which specialise in providing investment advice and counselling, insurance advice and coverage, tax and financial services to its clients.

The McCormack group of companies provides a neat lesson in creative marketing through identifying a need and providing the means to satisfy it.

Conserving the customer

MARKETING is the business function concerned with the creation and satisfaction of customers. Although vast forces of manpower, energy and money may be devoted to devising promotional schemes which turn people into customers, the satisfying of those customers is frequently the job of a single sales or service person.

Careless, inefficient or discourteous handling of the customer at that point can white-ant the whole carefully-constructed marketing edifice. There is some reason to doubt that the training given to individuals whose job it is to deal with a sometimes difficult public is all it should be.

Instance. Away from home, we wish to cash a cheque at a branch of the ANZ Bank. We write the cheque at the customer desk and approach the teller with the cheque in one hand and our ID, the bank's Creditline card, dutifully in the other. The teller is busy in an over-the-shoulder conversation with another bank officer on another bank matter. He accepts the cheque and the card but the conversation continues. The customer is merely a slip of paper. Acknowledging our presence for the first time, he says, "Sign on the back please. You're supposed to sign in front of the teller."

"And you're supposed to give undivided attention to your customer," was the hot reply. But of course, the retort was merely a mental one and never voiced.

The point of the story is this. The Government statistician says that, due to the Great Exodus, our population has been practically stationary for the last three years. In marketing terms, doesn't that mean that the customer is likely to become an endangered species? And shouldn't business begin to embark on a programme of customer conservation?

Information adjustment

BACK in our May 3, 1978 issue, Admark had some unkind things to say about the advertising for inflation adjusted bonds. We said that the advertisement was lazy, that it failed to inform sufficiently, and asked the prospect to dig for the information.

Well, a few weeks ago there was a fresh flurry of press advertising for the same investment. These ads really spelt it out in detail. Here was all the information needed to make a buying decision.

Those people who reacted and invested are receiving an interim receipt from the Reserve Bank together with a slip which reads, "Due to the large volume of applications which have been received in this Bank there will be a delay in forwarding your formal Notice of Registration."

We will be the first to grant that much of the business will be of a repeat nature for the new calendar year, that a lot more money has been invested in the interim in promoting the bonds, that in general the investment proposition is much more widely known . . . but we still have a feeling that advertising that tells is advertising that sells.

Exel in advertising

DAVID EXEL, former director of information for the New Zealand Labour Party, has been appointed to head up Corporate Marketing and Advertising Ltd, a new, specialised advertising agency and a wholly-owned subsidiary of Ogilvy and Mather.

"This is a trail-blazing effort to fill a clearly perceived need," Exel told Admark. "Our intention is to provide companies with a long-range, in-depth communications programme. Our focus will be on the corporate aspects of business rather than on product selling. The service we will provide will combine a mix of research, PR and advertising, tailored according to the needs of the client."

DAVID EXEL . . . trail-blazing

CMA will seek clients both from the O & M client list and outside. In overseas markets, the corporate and the product advertising accounts of large businesses are frequently handled by different agencies, so houses specialising in the corporate field have developed. An agency offering this specific service will be new to this country.

Airline's satellite link

JOURNALISTS like to get the story straight from the horse's mouth, rather than from a PR man — but what do you do when the head man is in Hawaii and the journalists are in Wellington and Auckland?

Continental Airline's PR agency David Brett Ltd, in conjunction with Vidcom, worked out one solution: a press conference via satellite connecting Wellington and Auckland journalists with Continental's executive vice-president, marketing, Charles Bucks.

Bucks fielded questions from his suite in Honolulu's Royal Hawaiian. The link, set up by Vidcom, went over the phone lines and via satellite, and was amplified for the teams of journalists in Auckland and Wellington.

Total cost of the exercise, according to David Brett's Barry Young, was $700 (including food and beer for the journalists).

Young said he would like to repeat the exercise, maybe with a video link next time.

Visa as credit card

YOUR item on February 7 on bank cards says "the National's plans are a little uncertain but our sources suggest it is likely its credit card will also be Bankcard . . ."

Not so, I'm afraid. We have announced that we will offer VISA. The fact that it is a credit (as distinct from the BNZ debit) card, will not cause confusion. Customers will know the difference and the processing for merchants is the same.

The only detail yet to be announced is the date. This depends on completion of the sophisticated computer package necessary for a credit operation.

As a result, instead of VISA being isolated it will in fact be offered by two banks serving around 60 per cent of the New Zealand banking market.

B D Pope,
Public relations manager,
The National Bank of NZ Ltd.

Law society insurance

THERE are some inaccuracies and misquotations in your article "Negligence Cover to be Compulsory for Lawyers" in your issue of February 7.

In the second paragraph you say that the proposed scheme being looked at by the New Zealand Law Society "will be the first insurance scheme in New Zealand to cover claims based in negligence against members of a professional organisation". It will probably be the first compulsory scheme but certainly not the first insurance scheme. The

LETTERS

Law Society has a group scheme now that covers approximately 85 per cent of the members who are covered by negligence insurance.

You say the Law Society Council "will authorise the scheme at its September meeting this year". I hope a recommended scheme can be put to the council in September but whether the council authorises it or not is quite another matter. This is certainly not something that the society is going to rush.

The article says that "Law societies in London, Scotland, New South Wales, Queensland and some Canadian provinces have introduced compulsory schemes recently". The situation is, as far as I know, that New South Wales and Queensland are negotiating schemes and Victoria has adopted a scheme.

When referring to the right of an insurer to decline cover for a non-notification to the insurer of any act which could possibly lead to a claim being made the article says "If he does not make notification he could possibly be precluded from the scheme". What I said was that cover could be declined in that particular instance, which is quite a different thing from being precluded or excluded from a scheme.

The final paragraph by relation to the previous paragraph could be misleading. There can be no suggestion of a compulsory scheme being adopted under which some of our practitioners who may have unfortunate claims histories are unable to afford the premiums. That would be a negation of the principle of a compulsory scheme. It will be essential in any scheme the society adopts that every member of the society will have insurance available to a minimum amount at a premium he can reasonably be expected to afford.

W M Hodgers,
Secretary-general,
New Zealand Law Society.

Right time, wrong place

REGARDING your item on irrelevant Christmas newspaper content (NBR, January 24), I'm afraid your facts are wrong.

The articles you referred to appeared in the Dunedin 1 O'clock sports weekly. The Christchurch weekly is the Weekend Star and we certainly don't print news 20 years old.

R A Doney,
Editor,
Weekend Star.

Access to the EEC

THE arguments of the Planning Council and others for continued access for New Zealand butter and lamb to the EEC market were described by your Economics Correspondent, using selected quotations, as largely emotional. I would suggest that some emotional desire for a clean break from Mother has clouded your correspondent's economic judgment in his article of February 7.

In his open letter to Mr Gundelach, he invites further restriction on access to the EEC, even total exclusion. Why not go further, and write open letters to Mr Carter and Mr Ohira inviting greater severity in their restrictions on our primary exports to their countries, and to Mr Fraser, welcoming even more restrictions on our manufactured exports to Australia? If we can derive strength through the pain of exclusion from Europe, why not positively exercise pressure for exclusion elsewhere?

Your correspondent's article seems to be based on an assumption that we are seeking charity in Europe. In fact, we are seeking to sustain part of a long-established market, for produce in which we have a strong comparative advantage, and at prices well below those paid to domestic producers. Contrary to the implicit assumption of your correspondent, the present extent and methods of farm support in the EEC are subject to challenge within the Community itself. Mr Gundelach himself has called for a policy of price moderation. New Zealand need not, therefore, feel apologetic about pressing for changes which would allow us to preserve some access. This could be done consistently with the EEC's own objectives. What is needed is less of the stimulus to high-cost domestic production and restraint on domestic consumption which a policy of high price support involves.

The Planning Council has made it plain that it expects our traditional exports to grow more slowly than new ones and that markets in the Pacific Basin, the Middle East and elsewhere will continue to assume greater importance in our trade. We would agree with your correspondent that relatively too much diplomatic and marketing effort has gone into the EEC, too little into other areas with greater potential for the future.

Negotiating some stable access for butter and lamb in Europe is completely consistent with the need for such a switch of emphasis. To throw the European market away, however, as your correspondent suggests, could not be anything but harmful to further diversification and future employment and living standards in New Zealand.

Frank Holmes,
Chairman,
NZ Planning Council.

PO couriers won't need the stamp of authority

by Bob Stoll

POST OFFICE plans to set up a courier service should concern private courier firms . . . but there has been little reaction from these operators.

The Post Office will have one big advantage over the private firms — it will not have to apply for goods service licences. Unlike the private firms, it will not therefore be called on to prove there is a need for its new service, or, to quote the legislation, that its new service "would not injure materially the economic stability of existing services".

Courier services do not carry "goods" in the popular sense of boxes and crates, but must hold goods service licences to carry small and urgent parcels, envelopes of documents and so on. Volume of goods doesn't come into it — motorcycle couriers in Auckland and Wellington need licences the same as the operators of the biggest truck and trailer rigs.

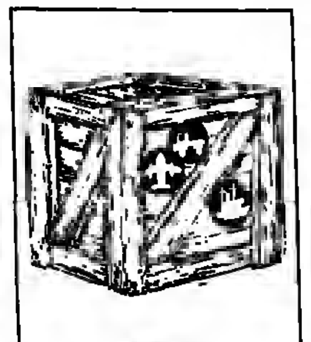
But the Post Office — asked if it would need to apply for goods service licences before starting the courier service — says it does not need licences to carry mail. (Generally the Crown does need a goods service licence when it ventures into the field of general cartage, but the Crown has an automatic exemption from the 150km distance limit.)

The Post Office may see its courier venture as a logical extension of existing postal services. Thus casual customers of the new service could use ordinary postage stamps to pay for consignments.

The Australian post office has gone into the courier business, and that country is more free-enterprise oriented than New Zealand. Several other Commonwealth post offices have also taken the plunge.

And the people charged with running the Post Office are supposed to trade at a profit, so from time to time they must be expected to move into new ventures.

It is difficult to accept that a Post Office courier service will be no threat to private operators because the State-run Post Office is "inefficient". On the contrary, the Post Office does a good job — the mail goes through, all but a tiny percentage undamaged and on time. The phones invariably work, and other services are satisfactory too. I



TRANSPORT

doubt that a New Zealand-based private firm employing the same number of staff (35,000) would be a more efficient user of resources.

But what does the Post Office plan to do? It will start in April or May with a limited service in Auckland, Wellington and Christchurch for contract — that is, regular — customers, with negotiated charges, the whole being parallel to what the private firms do. Later on, the Post Office expects to branch out to other centres and to provide a service for casual customers, once again along the same lines as services provided by the private firms.

The Post Office might take business away from existing private firms. That would mean the amount of work is finite, that the private firms have exploited the market to its fullest, and that the only way a newcomer can survive is to run at a loss, take business away from established operators or a bit of both.

But the Post Office already has an established infrastructure (offices in all centres, scope for free advertising via telephone directories and so on) and has an excellent chance of developing new business, thus causing no great inconvenience to the private firms . . . at least in some centres.

The story may be different in Auckland and Wellington, where a number of firms operate in a competitive environment, but that remains to be seen.

The publicity announcing the new service suggests the Post Office will work alongside the private firms, rather than try to run them off the road.

But if the Post Office does not have to state its case before a Transport Licensing Authority, it will be able to start or stop services with no reference to anyone, with no need to prove "public interest" provided it regards its courier service as "mail" and not "goods".

The Post Office should consider using owner drivers working on contract for the actual courier work, in the same way that a number of private firms do . . . and Air New Zealand, for that matter. Owner drivers would need goods service licences. In this way the Post Office would get its service on equal terms and there would be no excessive expansion of the role the State plays in the business world.

RB211 helps to revive Rolls-Royce

EIGHT years after Rolls-Royce Ltd was put into receivership the saga of the old company continues — but under a new name.

On August 14, 1971, it was estimated that the crash would cost unsecured creditors 60.9 million pounds and stockholders a like amount or a total of about $231,558,900.

At last reckoning, however, all agreed claims from unsecured creditors had been paid and stockholders who had already received 55 pence in the pound of stock were likely to receive a further dividend. Thus the end result was expected to reduce the face value of shareholders' lost stock from 60.9 million pounds to 25.2 million pounds or from about $115,779,500 to about $47,908,700.

Immediately the British Government stepped in, a new company, Rolls-Royce (1971) Ltd, was formed to carry on the work of the old. Later Rolls-Royce Ltd changed its name to R-R Realisations Ltd and Rolls-Royce (1971) Ltd reverted to the old name of Rolls-Royce Ltd.

Last year, Rolls-Royce Ltd announced (mainly aero engine) sales and orders of more than 621 million pounds (about $1,160,606,300).

Its most important breakthrough was the selection by Qantas of the company's RB211 engine to power the airline's newest long-range Boeing 747 airliner, despite the fact that the 17 747s already serving Qantas were all powered by American aero engines.

Development of the RB211 was the cause of R-R's initial difficulties.

The Qantas order climaxed a record year for Rolls-Royce and brought to 2000 million pounds (about $3,802,261,300) the worth of the on-going business the engine has brought the company. Its orders and options now total RB211 engines for more than 340 aircraft belonging to 15 major operators world-wide.

The RB211, of course, is only one of the feathers in the Rolls-Royce cap.

Last year, for example, the company received orders for 160 industrial engines at about $633,700 each. This one is based on a development of the Avon engine which was originally produced to power the Comet, the world's first pure jet airliner.

Wage guidelines: wrong path

by Rob Campbell

THERE are two primary questions to be asked about any contribution to public debate:

1 Is it true, or if not will it be believed to be true?

2 Is it useful, and if so to whom is it useful?

McDonald adopts a Swedish model and applies it to a range of local data to conclude that labour costs have risen excessively, threatening profitability, equity investment, and finally employment. At one level, the observations are correct enough, though McDonald glosses over the real tension between the role of wages as a labour cost and their role as an input to the reproduction of labour. This tension is as old as wage labour itself. The rapid rise in wage taxes which accommodated a rapid fall in company tax and the increasing fiscal needs of the State has been temporarily stalled in a minor way. Long term, however, this will continue as a major problem.

The substitution of "public goods" for "private goods" has not been seen as a trade-off by workers simply because it is not such. Increased government taxation has been linked with serious deterioration in a wide range of social services.

What McDonald describes is a system of economic production which, for possibly a lengthy period, is unable to satisfy both the wants of its workers and the particular wants of its major agent of change and development — private capital. Presently even the limits of "public" capital support are stretched to the limit.

This is a real problem, in the sense that it has nothing to do with workers being "unreasonable" (living standards falling in both absolute and relative terms) nor with private capital being extortionate (rates investment). Because it is a problem of this nature, its solution lies neither in the acceptance of wage guidelines, nor in voluntary acceptance of responsibility or whatever cries are deemed appropriate.

It is not self evident that an acceptance of a "reasonable wage path", which is what McDonald points towards, would improve profitability. In some industries (retail, local market manufacturing) it could easily exacerbate problems where profitability is demand — rather than labour cost — affected.

Nor does the reduction in equity investment necessarily represent a reaction to low profitability. Rather it represents a common trend towards internal generation of funds as enterprises grow and the relative lack of large pools of saving in the economy in forms available for equity investment.

These faults in the McDonald analysis stem partly from the level of aggregation at which he is dealing. Can one show that it is the industries with highest movements in labour cost which have had the highest falls in profitability; have these in turn been the industries which have felt the greatest lack of equity investment; and have they seen the greatest falls in employment level? I think one can confidently say that none of these is the case.

Rather, the New Zealand labour market, aided by current government policy, shows signs of developing low and high wage pockets. While in some instance technological change is reflected in wage and other payments, in others (eg road transport) the system is excessively slow to react.

What this reflects is that the McDonald analysis is a correct portrayal of neither labour market problems nor wider economic problems. Hence, it is not useful in the sense that it can be applied to solve those problems. It is, on the other hand, a convenient enough theory and will be believed and adopted by many business circles. The tragedy for these circles, of course, is that some (possibly many) will find the wage path (whatever its level) inconvenient and will break it, whether prompted by a union or not.

BEHIND Prime Minister Muldoon's recent threats to restore wage controls lies a belief among some economists that growth in real wages has been excessive.

To foster debate on this issue, last week NBR printed extracts from a speech by T K McDonald, director of the New Zealand Institute of Economic Research. McDonald argues that rewards to labour have outstripped productivity growth and thereby contributed to growing unemployment and low private sector investment levels.

McDonald focuses on recent trends in salaries and wages, profits and productivity. He analyses changes in factor shares income going to different production factors such as labour and capital) and comes to the conclusion that the share of national income going to labour (ie, wages and salaries) is rising while that going to capital is falling.

Policy makers should address this problem, in McDonald's opinion. He says that "there is much to applaud recommendations for wage setting in Sweden embodying the concept of a 'main path' for wage and profit levels, allocating maximum long-run returns to labour which allow 'normal' profits and encourage investment in productive areas".

This week we print comments on McDonald's speech by two economists involved in industrial relations.

D J Turkington, a senior lecturer at the Industrial Relations Centre, Victoria University, points out that by focusing on the share of national income going to wages and profits, McDonald fails to note the implications of the falling share to farmers.

R J Campbell, industrial officer for the Drivers' Federation and the Shop Employees' Association argues that the McDonald analysis is not a correct portrayal of labour market problems or wider economic problems. It is simply a convenient theory that will be adopted by many business circles.

Sharing out the national cake

by Don J Turkington

SHARES of the national cake are what the processes of production and distribution are all about and historically these shares don't change much.

The essence of Kerry McDonald's paper is that in recent years they have moved in favour of wages and against profits and that this change will have a detrimental effect on the New Zealand economy over the long run. His policy prescription is to reduce real wages so as to make it profitable for firms to increase employment.

Let's look a little more closely at his argument. As every income earner knows, it's tax which makes the difference and McDonald stresses this with regard to wages and salaries. While wages and salaries have risen rapidly, taxes on them have risen even more dramatically so that the increase in real, after-tax wages and salaries has been in line with the increase both in available national cake and in real (before tax) company income. The Government, running true to form, has been the main beneficiary of the recent inflation.

Unfortunately McDonald doesn't pay as much attention to taxes on profits when considering the share of company income. As opposed to the situation with wages and salaries, the rate of tax on profits has fallen so that growth in disposable profits has been faster than in total profits (which McDonald concentrates on). And it is disposable profits which co[illegible] in investment [illegible] employment decisions.

While share of profits [illegible] wages in national income [illegible] fairly constant over the [illegible] term, they do vary with [illegible] business cycle and there [illegible] nothing in McDonald's analysis to suggest that he [illegible] done more than spot a cyclic[al] variation. It's well known [illegible] in recessions profits lag beh[ind] wages but this shouldn't [be] taken as evidence of a maj[or] structural change or long te[rm] trend.

By focusing on wages a[nd] profits, McDonald miss[es] much of the point. It is [illegible] companies which ha[ve] suffered any great fall in the share of national income [illegible] farmers. The farming share [is] now only about half what [it] was in the early sixties [illegible] should low real farm income and static agricultur[al] production continue very [illegible] into the future, New Zeala[nd] will really be in the cart. Th[illegible] the answer lies in the coll[illegible] applies to New Zealand [illegible] more than most of us care [to] admit.

McDonald is not too expli[cit] on how he would impleme[nt] his policy suggestion [illegible] reducing real wages. This [illegible] matter little as the mark[et] appears already to be hav[ing] this effect. He does point [illegible] problems in the prese[nt] system of wage fixi[ng] including the "iron law [of] relativities". Just as in oth[er] areas of the economy, remo[val] of many of the le[gal] regulations and restrictio[ns] would go a long way to solvi[ng] these problems.

Devaluation — without altering exchange rate

DEVALUATION has become a major topic of discussion and conjecture in the business community — and not for the first time. Indeed, Prime Minister Muldoon has been obliged to deny devaluation rumours a number of times in recent years.

In August 1977, for example, he ruled out any change to the New Zealand dollar after the Australians devalued.

There were more whispers of a possible devaluation in September that year. Muldoon reiterated his opposition to devaluation.

Early last year, the Wellington business consulting group BERL advised devaluation through its newsletter. The Prime Minister responded with an angry attack: "Anyone who conducted their business according to newsletters would go bankrupt very quickly."

In June last year, Professor K B Cumberland tipped a devaluation "immediately after the election if the Government is returned".

Another flurry of rumours swept the country in August, after questions were raised by a Reserve Bank suspension of quotations in foreign currencies other than the American dollar. Muldoon responded with another denial.

He returned from overseas in October to scotch Opposition suggestions New Zealand was about to revalue.

This year's bout of devaluation talk was fostered by the OECD report on the New Zealand economy, which recommended devaluation (provided a number of other measures were taken).

Indeed, devaluation fears begun a run by New Zealand companies trying to replace expensive overseas loans, and by emigrants taking millions of dollars out each week to avoid an expected economic crunch.

So now for something completely different. Canterbury University economist Brian Easton tells us how to devalue without changing the exchange rate.

MANY economists would support a devaluation. Their analysis centres around the view that the domestic price of our imports is too low, so we are encouraged to consume imports rather than manufacture our own goods; and that the return for our exports is too low, so we discourage domestic producers from exporting.

The economic arguments against devaluation are its effect on capital account of the balance of payments raising the domestic cost of our foreign debt; its effect on domestic prices, which may spiral into inflation; the technical problems of getting a package of economic measures accompanying a devaluation to stick. More severe objections come from politicians, who do not seem to appreciate the role of prices in the allocation of resources.

The result has been that instead of devaluing, we have carried out a massive programme of fiscal subsidisation. Economists are becoming increasingly worried about this programme, not only in terms of the tax levels that are necessary to finance it, but because its impact seems erratic; therefore, the price allocation mechanism may be even more thwarted.

As an alternative to devaluation and fiscal subsidisation I propose a value-added tax of 14½ per cent. In principle, such a tax would be imposed upon the added value component of corporation profits, other factor income, and imports, and would be rebated on exports. But we would adopt the convention that the first 14½ per cent of corporation tax and income tax would be the value-added tax. That is why the 14½ per cent rate was chosen, it being the lowest income tax rate on income (on incomes of persons up to $4500 pa).

Thus, the main change to the present tax structure would be a 14½ per cent levy on imports of goods and services. The effect would be to raise import prices by this amount, and so encourage domestic substitution. Assuming there are no exemptions (and there is no need for them) such a tax on imports would raise about $600 million and add less than 4 per cent to domestic prices. This price effect and some unnecessary protection could be reduced by simultaneously reducing customs tariffs (and perhaps overseas travel tax) by up to 14½ percentage points.

At the same time, the value-added tax can be deducted from exports. Since it is an indirect tax, such a deduction is not treated internationally as an export subsidy, and therefore is not "illegal" under international trade agreements. The effect of such a deduction is to make it more profitable for exporting; its value to some industries could be substantial.

In one year the value to the pastoral industry and its processing could be more than $300 million, to forest products more than $30 million, and to manufacturing more than $60 million.

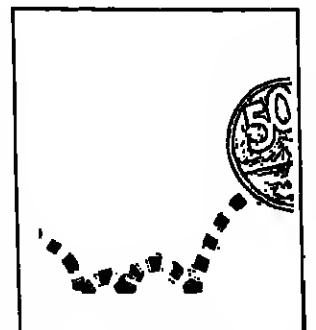
But with the introduction of the value-added tax rebate for exports, many fiscal subsidies for exporting should be withdrawn. The net fiscal revenue from added-value tax (less rebates, plus savings on fiscal subsidies, less reductions in customs tariffs) would be used for reducing income tax (that is assuming, the Government budget is balanced).

The overall result is a devaluation on current account: that is, the profitability of exporting and import substitution is raised relative to domestic production and importing. The income tax rate can be reduced, domestic prices will increase by less than 4 per cent, and there is no major disruption to the capital account.

The Ross Committee on Taxation (Royal Commission on Taxation which reported in 1967) did not support a value-added tax because of the "administrative and accounting burden".

The proposal here involves a different method of collection from that considered by the Ross Committee. The value-added tax on incomes is already collected by the Department of Inland Revenue, and there would be no need for even a separate record. For other factors and imports, it is a matter of the Customs Department using the excise tax system. (There may also have to be changes to prices for some Government services, on which company tax is not changed.) Thus, the new tax would involve little, if any, changes to most firms.

A further merit is that the main change — the levy on imports — can be introduced quickly, and the subsequent changes more slowly. Given the current fiscal and balance-of-payments situation, this phasing could be advantageous.



THE MONEY MARKET

It may seem curious that the main effect of the introduction of a value-added tax would be a levy on imports, which are not "value added". This is a question of nomenclature. So-called value-added taxes arose out of turnover taxes which included taxing imports. There is an almost universal acceptance that added-value taxes may be levied on imports and deducted from exports.

One of the theoretical justifications for a value-added tax is in terms of who should pay for Government services. Under our present taxation system, particularly with high levels of average income tax, some of the levied tax will be "shifted forward" on to exports. That means that some Government services will be paid for by those who consume the exports, that is foreigners.

On the other hand, consumers of our imports, that is New Zealanders, do not pay the tax.

It is not obvious that it is appropriate for foreigners, rather than import consumers, to pay for, say, social expenditure. A value-added tax on imports and deducted from exports, reverses this situation.

Another way of looking at the same argument is that it is likely that some of our potential exporters are stopped because our tax system requires the foreign purchaser to pay for the welfare state through the taxes on exports. But some imports are competitive only in New Zealand because their consumption makes little contribution to public welfare.

Nonetheless, our trading partners could see this as an ingenious way of imposing an import surcharge, and threaten retaliation because they did not think of it first. We can show our good faith by dismantling some of the protection levies and fiscal subsidies on exports.

Although this proposal is equivalent to a 14½ per cent devaluation on current account, it may not be enough. But it can be implemented, and quickly, and if there is also a reduction in protection and erratic export subsidies some of the distortions from the fiscal system will be reduced. Given the present inertia in policy towards long-term structural change, the proposal represents a major step forward.

Given the present inertia in policy towards long-term structural change, the proposal represents a major step forward.

Nickel industry crisis: will it spell change for New Caledonia?

by Jenny Morrel

MOST countries have economic problems but it seems reasonable to say that New Caledonia — a French overseas territory in the Pacific — has a crisis worse than most. Its economy is based on one main product — nickel — and nickel sales have plummeted since 1972.

Noumea, the capital of New Caledonia, is a fascinating and confusing city. With a population of only about 60,000, it has perhaps more restaurants and nightclubs than any New Zealand city. These are still doing a thriving trade.

The large marina is full of expensive pleasure boats, everywhere there are high apartment buildings, exclusive little boutiques and French coiffeurs abound.

At the supermarket you can buy cheeses flown in from France, fruits from California — in fact, almost anything you can think of, if you are prepared to pay. Luxury goods of all kinds are available, but the prices of everything are high.

On the other hand, you can see the unemployed hanging about in the central square or the backstreets of town, the second-hand car yards are crowded with cars they cannot sell as many people leave the country, and at night the unlit windows testify to the number of empty apartments.

In the newspapers, notices of bankruptcy are becoming common, while offers of employment are rare.

Noumea was a boom town from 1969 to 1970. Nickel prices soared during the Vietnam War and New Caledonia was a leading world producer. People flocked into the country, housing was at a premium, prices soared. Blocks of apartments went up, new land was developed, roads were built, and grandiose schemes were planned. There was to be a second refining plant near Noumea, and perhaps others elsewhere, more nickel companies were to be allowed in, a modern highway was to encircle the rugged islands...

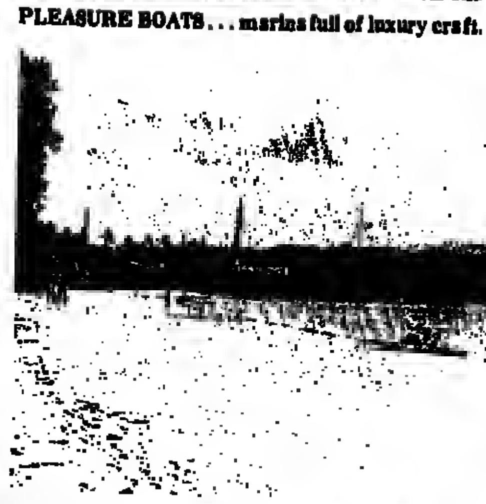
Then the world nickel price fell, other countries (such as Canada and Indonesia) expanded their nickel mining, and, perhaps most important of all for New Caledonia, oil prices rose.

Even now, while New Caledonia suffers from an almost complete halt in its nickel production, other countries are producing profitably. The main reason is energy: apart from one small hydro scheme New Caledonia is dependent on imported oil to fuel its refinery. And other production costs — especially skilled and managerial wages — are high.

The recent Indonesian devaluation created an even bigger cost differential between the two countries and sent a ripple of apprehension through New Caledonia.

Prices in general are very high in New Caledonia. Partly this is a result of the tax system: there is no income tax but everything bears import or sales tax. Second, the boom pushed prices up and people are reluctant to bring them down. Third, the wealthy class can afford to pay high prices.

PLEASURE BOATS . . . marina full of luxury craft.



ILE DES PINS . . . outer island tourist resort

But there is something strange about the high prices: shopkeepers in general expect to sell a small quantity at a high mark-up. Why doesn't somebody undercut them by concentrating on high turnover?

And when the economy is so depressed, why is the currency, CFP or Colonial Franc Pacifique, remaining strong? This is a result of New Caledonia's relationship with France. For one thing, the same currency is used in French Polynesia, which does not share the same economic troubles. The present economic troubles may force a re-evaluation of the relationship between New Caledonia and France.

On the one hand, the French Government (and many Caledonians) insist that this Overseas Territory will remain French. On the other, with 1.3 million unemployed at home, the French may not be keen on financial aid for this ailing economy, but the Caledonians are likely to demand aid as the price of their staying closely tied to France.

A polarisation of local politics has begun: one side talks about departmentalisation (becoming a full province or integral part of France); the other mentions, rather warily, full independence as the only option if France refuses to grant greater internal autonomy to the territory.

The population of New Caledonia is a great mixture: about 40 per cent are European (more than half of these are "colons" or settlers; the rest are "metropols" in the colony under contract as public servants, doctors, teachers, and so on), just over 40 per cent are indigenous Melanesian, and just under 20 per cent are "others", which include many Wallisians, Indonesians, Vietnamese, West Indians and Tahitians.

Most of the Melanesians live on the wetter east coast, where they were shifted by the French, and on the Loyalty Islands to the east of the mainland, or Grande Terre. There they cultivate their traditional subsistence gardens, coffee for the local market, and some copra.

The colons raise cattle on the drier west coast, work for "Le Nickel", and provide the tradesmen and business[...] Noumea.

The metropols live mainly [in] Noumea, as do the "other[s]" who are mostly employ[ed by] "Le Nickel".

The unemployed [...] Noumea are likely to [be] "others", Melanesians [who] had come to Noumea to [work] at the refinery, and [...] some colons.

The frequenters of [the] restaurants and nightclubs, boat-owners and purchase[rs of] luxury goods are above [all] metropols, on contracts [with] very high salaries (on [the] grounds that hardship in[creases] with distance fr[om] Paris!) and the few wea[lthy] colons, most of whom [have] made their money [from] private mines.

There is a tremendous [range] of incomes here: from [the] unemployed, receiving [very] little in benefits and work[ers] on wages similar to those [in] New Zealand, to professional and business people earning easily five times, and [up] to times, as much — a [dif]ference which is accentuated by the lack of income tax.

The main island of [New] Caledonia is about a quarter the size of the South Island of New Zealand. It is rugged and mountainous with an undulating coastline and [very] little good arable land.

Travelling around the island, you see everywhere the great red gashes in the [...] which are the nickel mines [...] where exploration for nickel has been carried out. The nickel is surface-mined throughout the Grande Terre mainly by the Societe le Nickel (SLN) for refining in its Noumea plant but also by the "petits mineurs", who export the crude ore to Japan for processing or sell it to the SLN.

It is above all the fate of the SLN which is of interest, for this earns the majority of overseas funds, employs more people than any other economic activity in the country, and is indirectly responsible for the livelihood of most of the population.

In mid-1978, there was a six-week strike in protest at a proposal to cut wages to delay laying off staff. This ended in a negotiated cut accompanied by reduced working hours and increased holidays and had the effect of causing a number of metropols, whose contracts had been breached, to pack up and leave.

The question is what happens next. With the company already running at a considerable loss, will it close completely or at least for several months of the year? This would cause phenomenal unemployment and political problems.

Naturally the Administration has been aware of the growing economic problem. For the last few years it has been trying to encourage agriculture and tourism to buffer effects of the decline in nickel earnings, while expecting nevertheless that nickel will remain the mainstay of the economy.

The agricultural sector was perhaps more developed at the turn of the century than it is today, for then the settlers were still enthusiastic, especially about beef raising and coffee.

The development of the nickel mines and the high wages available attracted people from the land, the supply of cheap Asian farm labour dried up, and the agricultural sector got left behind. Some of the colons continue to raise beef on the western foothills, satisfying the local market, and Melanesians have taken over the coffee growing to supply their cash needs, producing enough for the local market and a small amount for export. But recently market-gardening has increased, considerably cutting imports of vegetables, new small industries such as beekeeping are starting, and there is a little new life in the agricultural sector — which one would expect to be important, at least for the domestic needs, in this isolated, thinly populated group of islands.

LOADING ORE . . . at Thio, south-east New Caledonia.

NICKEL PLANT . . . at almost complete halt.

Tourism has had a much more dramatic growth during the seventies. Offering primarily "a taste of French life", including the restaurants, wine and boutiques, and also an excellent climate, the white sand beaches of the outer islands, such as Ile des Pins, and the curiosity of the Melanesian villages as seen from the "bush hotels," have attracted a lot of Australian (and New Zealand) tourists.

But Noumea is expensive for tourists, it does not have the "Pacific paradise" feeling of, say, resorts in Fiji, and the Caledonians do not seem to be wholehearted about wanting tourists.

At present, New Caledonia seems to be living in an unreal world. Everywhere there are signs of affluence but already unemployment is high and the future of the main economic activity is tenuous.

If the nickel collapses, there will be an exodus, specially of metropols, many such as the Wallisians will be in a quandary with no employment to go to in their own countries (there are more Wallisians in New Caledonia than in the Wallis Islands.)

But eventually it will be the colons and Melanesians who will have to cope with the decreased standard of living and the economic development of this basically undeveloped country. It will be difficult for the urban Melanesians; the colons argue that they will manage because they are more self-sufficient and hardy than the metropolitan French who are giving the country its false glow of prosperity.

In some ways, the nickel crisis should be good for the country.

One resource which has hardly been touched here is the sea. New Caledonia has the largest reef fish resources of any Pacific country — not suprising, when it is encircled by a reef on average 5 kilometres from land and second only to the Great Barrier Reef in size. A stop to the nickel mining would have at least one good effect in stopping the pollution of this valuable untapped wealth.

The nickel crisis could bring other benefits, such as forcing the businesses remaining and the new ones which come to be more efficient than those which erupted during the last boom and have simply tottered on since.

While the development of agriculture, tourism and fishing would help tremendously in putting this economy on to a more secure basis, protected from the boom and bust cycles typical of an economy dependent on a single primary commodity, it is premature to say that the nickel is "finished".

It is by no means the first time that New Caledonia's nickel industry has been in trouble: in 1947 the refinery was closed for 10 months of the year. That time, recovery required modernisation and mechanisation of the plant to reduce costs. Perhaps the present crisis will force similar changes.